Dec. 31, 1999
Name changed from Northern Telecom Ltd April 29, 1999

NORTEL NETWORKS™

How the world shares ideas.

Nortel Networks Corporation

Consolidated Financial Statements

and

Other Financial Information

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Nortel Networks Corporation and all information in this annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. The financial statements include some amounts that are based on best estimates and judgements. Financial information used elsewhere in this report is consistent with that in the financial statements.

Management of the Corporation, in furtherance of the integrity and objectivity of the financial statements, has developed and maintained a system of internal controls and supports and extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements, and that assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the Corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management's being present.

These financial statements have been examined by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants, and their report follows.

John A. Roth President and Chief Executive Officer	Frank A. Dunn Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders
NORTEL NETWORKS CORPORATION

We have audited the consolidated balance sheets of Nortel Networks Corporation as at December 31, 1999 and 1998 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

Toronto, Canada
February 1, 2000 except as to note 24(a) which is as of March 2, 2000

NORTEL NETWORKS CORPORATION
Consolidated Statements of Operations
Year Ended December 31
(millions of U.S. dollars except per share figures)

	1999	1998	1997
Revenues (note 2)	$ 22,217	$ 17,575	$ 15,449
Cost of revenues	12,597	10,050	9,111
Gross profit	9,620	7,525	6,338
Selling, general and administrative expense	4,102	3,093	2,714
Research and development expense (note 5)	2,908	2,453	2,147
Amortization of intangibles			
Purchased in-process research and development	722	1,241	-
Acquired technology	686	228	-
Goodwill	639	240	48
Special charges (note 6)	209	447	95
	354	(177)	1,334
Equity in net earnings (loss) of associated companies	(13)	(19)	14
Other income – net (note 7)	357	492	88
Interest expense			
Long-term debt	(101)	(117)	(131)
Other	(71)	(115)	(38)
Earnings before income taxes	526	64	1,267
Income tax provision (note 8)	696	601	438
Net earnings (loss)	(170)	(537)	829
Dividends on preferred shares	27	32	17
Net earnings (loss) applicable to common shares	$ (197)	$ (569)	$ 812
Earnings (loss) per common share (note 3)	$ (.15)	$ (.50)	$ .78
Dividends declared per common share	$ .15	$ .15	$ .15
Weighted average number of common shares outstanding (millions)	1,353	1,144	1,044
Pro forma information reflecting the impact of the proposed stock split (note 24):			
Earnings (loss) per common share	$ (.07)	$ (.25)	$ .39
Dividends declared per common share	$ .075	$ .075	$ .075
Weighted average number of common shares outstanding (millions)	2,705	2,288	2,089

NORTEL NETWORKS CORPORATION

Consolidated Balance Sheets

As At December 31

(millions of U.S. dollars)

	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,257	$ 2,281
Accounts receivable		
Related parties (note 10)	319	248
Trade (less provision for uncollectibles – $328 for 1999, $260 for 1998)	6,467	5,214
Inventories (note 11)	2,956	1,687
Prepaid expenses	291	223
Deferred income taxes	778	664
	13,068	10,317
Long-term receivables		
(less provision for uncollectibles – $286 for 1999, $115 for 1998)	1,567	573
Investments		
Associated companies at equity	120	103
Other	443	418
	563	521
Plant and equipment – net (note 12)	2,458	2,263
Intangible assets		
Purchased in-process research and development – net	44	509
Acquired technology – net	1,202	1,822
Goodwill – net	3,274	3,289
	4,520	5,620
Other assets	421	438
Total assets	$ 22,597	$ 19,732

NORTEL NETWORKS CORPORATION
Consolidated Balance Sheets
As At December 31
(millions of U.S. dollars)

	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$ 222	$ 186
Accounts payable and accrued liabilities		
Trade and other payables	2,591	1,555
Related parties (note 10)	1	11
Payroll	123	172
Other accrued liabilities	4,295	3,697
Income taxes payable	493	253
Long-term debt due within one year (note 14)	65	19
	7,790	5,893
Long-term liabilities		
Deferred income	54	77
Long-term debt (note 14)	1,624	1,648
Deferred income taxes	124	94
Other liabilities	395	366
	9,987	8,078
Minority interest in subsidiary companies	92	89
Commitments and contingencies (notes 15 and 16)		
Shareholders' equity		
Preferred shares, without par value – Authorized shares: unlimited; Issued and outstanding shares: 30,000,200 for 1999 and 1998 (note 17)	609	609
Common shares, without par value – Authorized shares: unlimited; Issued and outstanding shares: 1,377,154,698 for 1999 and 1,326,208,962 for 1998 (note 17)	10,077	8,553
Retained earnings	2,156	2,568
Additional paid-in capital	135	199
Foreign currency translation adjustment	(459)	(364)
	12,518	11,565
Total liabilities and shareholders' equity	$ 22,597	$19,732

On behalf of the Board of Directors

Frank C. Carlucci
Director

Lynton R. Wilson
Director

NORTEL NETWORKS CORPORATION
Consolidated Statements of Shareholders' Equity
Year Ended December 31
(millions of U.S. dollars)

	1999	1998	1997
Preferred shares (note 17)			
Balance at beginning of year	$ 609	$ 609	$ 367
New issues	-	-	242
Balance at end of year	$ 609	$ 609	$ 609
Common shares (note 17)			
Balance at beginning of year	$ 8,553	$ 1,609	$ 1,461
Shareholder dividend reinvestment and stock purchase plan	4	4	4
Shares issued pursuant to stock options	517	121	172
Shares issued relating to acquisitions	965	6,844	-
Shares issued pursuant to convertible debentures	41	-	-
Shares purchased for cancellation	(3)	(25)	(28)
Balance at end of year	$ 10,077	$ 8,553	$ 1,609
Retained earnings			
Balance at beginning of year	$ 2,568	$ 3,514	$ 3,290
Net earnings (loss)	(170)	(537)	829
Dividends			
Preferred shares	(27)	(32)	(17)
Common shares	(204)	(178)	(150)
Excess of cost over carrying amount of common shares purchased for cancellation	(11)	(199)	(438)
Balance at end of year	$ 2,156	$ 2,568	$ 3,514
Additional paid-in capital			
Balance at beginning of year	$ 199	$ -	$ -
Assumed common share options related to acquisitions	45	215	-
Intrinsic value and costs associated with assumed options and stock purchase plan	(109)	(16)	-
Balance at end of year	$ 135	$ 199	$ -
Foreign currency translation adjustment			
Balance at beginning of year	$ (364)	$ (322)	$ (242)
Translation of self-sustaining operations	(152)	(23)	(151)
Impact of foreign currency hedges	57	(19)	71
Balance at end of year	$ (459)	$ (364)	$ (322)

NORTEL NETWORKS CORPORATION
Consolidated Statements of Cash Flow
Year Ended December 31
(millions of U.S. dollars)

	1999	1998	1997
Cash flows from (used in) operating activities			
Net earnings (loss)	$ (170)	$ (537)	$ 829
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities, net of effects from acquisitions of businesses:			
Amortization	2,651	2,259	546
Equity in net earnings (loss) of associated companies in excess of dividends received	14	24	(6)
Increase in deferred income taxes	31	59	71
Increase in other liabilities	67	37	5
Gain on sale of businesses	(131)	(258)	(102)
Other	(314)	(111)	(24)
Change in operating assets and liabilities:			
Accounts receivable	(1,488)	(236)	(920)
Inventories	(1,363)	185	(117)
Accounts payable and accrued liabilities	1,657	328	655
Other operating assets and liabilities	19	(203)	(142)
Total	973	1,547	795
Cash flows from (used in) investing activities			
Expenditures for plant and equipment	(823)	(649)	(568)
Proceeds on disposals of plant and equipment	24	27	5
Increase in long-term receivables	(1,101)	(651)	(376)
Decrease in long-term receivables	193	295	570
Acquisitions of investments and businesses net of cash acquired (note 19)	(697)	115	(167)
Proceeds from sale of investments and businesses	993	751	390
Total	(1,411)	(112)	(146)
Cash flows from (used in) financing activities			
Dividends on common and preferred shares	(231)	(210)	(168)
Increase in notes payable	253	752	333
Decrease in notes payable	(183)	(746)	(238)
Additions to long-term debt	194	56	164
Reductions of long-term debt	(116)	(281)	(38)
Decrease in capital leases payable	(8)	(3)	(1)
Issuance of preferred shares (note 17)	-	-	242
Issuance of common shares (note 17)	521	125	176
Common shares purchased for cancellation	(14)	(224)	(466)
Total	416	(531)	4
Effect of exchange rate changes on cash and cash equivalents	(2)	6	(12)
Net increase (decrease) in cash and cash equivalents	(24)	910	641
Cash and cash equivalents at beginning of year – net	2,281	1,371	730
Cash and cash equivalents at end of year – net	$ 2,257	$ 2,281	$ 1,371

1. Significant accounting policies

The consolidated financial statements of Nortel Networks Corporation (the "Corporation") and its subsidiary companies (collectively, "Nortel Networks") have been prepared in accordance with accounting principles generally accepted in Canada. There are no material differences between Canadian and United States generally accepted accounting principles ("GAAP") in the consolidated financial statements except for the information disclosed in notes 3, 20, and 23 and as described in note 9. The consolidated financial statements are expressed in United States dollars as the greater part of the earnings and net assets of the Corporation are denominated in United States dollars.

The Corporation is headquartered in Canada. On April 29, 1999, the Corporation changed its name from Northern Telecom Limited to Nortel Networks Corporation in its English form and from Northern Telecom Limitée to Corporation Nortel Networks in its French form.

(a) *Principles of consolidation*

The financial statements of entities which are controlled by the Corporation, referred to as subsidiaries, are consolidated; entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated; entities which are not controlled but over which the Corporation has the ability to exercise significant influence, referred to as associated companies, are accounted for using the equity method; and investments in other entities are accounted for using the cost method.

(b) *Translation of foreign currencies*

The functional currency of the Corporation is the United States dollar. The financial statements of the Corporation's operations whose functional currency is other than the United States dollar are translated from the functional currency to United States dollars using the current rate method, except for those operations in countries considered to have a highly inflationary economy, as described below. Under the current rate method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses, including gains and losses on foreign exchange transactions are translated at average rates for the period. Where the current rate method is used, the unrealized translation gains and losses on the Corporation's net investment in these operations, including long-term intercompany advances, are accumulated in a separate component of shareholders' equity, described in the consolidated balance sheet as foreign currency translation adjustment ("CTA"). The Corporation hedges a floating percentage of the exposure to foreign exchange gains and losses incurred on the translation of such foreign operations. Hedging instruments used by the Corporation comprise a combination of foreign currency denominated debt, foreign currency swaps and foreign currency forward contracts that are denominated in the same currency as the hedged operations. The translation gains and losses on these hedging instruments are recorded in CTA and are expected to closely offset the translation amounts recorded in CTA for the hedged portion of these operations. The Corporation monitors the effectiveness of this hedging strategy regularly.

Transactions and financial statement items denominated in a currency other than the functional currency are translated into the Corporation's functional currency using the temporal method. In addition, the financial statements of operations in countries considered to have highly inflationary economies are translated into United States dollars using the temporal method. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at average rates for the period, except for amortization which is translated on the same basis as the related assets. Exchange gains or losses are reflected in net earnings.

(c) Revenue recognition

Revenues are generally recognized, net of trade discounts and allowances, upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Software revenues are generally recognized when delivered in accordance with all terms and conditions of the customer contracts, upon acceptance from the customer, and when collection is reasonably assured.

Revenues on long-term contracts, including turnkey contracts, are recognized using the percentage-of-completion method on the basis of percentage of costs incurred to date on a contract, relative to the estimated total contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billings based on completion of certain phases of the work. Service revenues are recognized at the time of performance or proportionately over the term of the contract, as appropriate.

Nortel Networks provides extended payment terms on certain software contracts, and may sell these receivables to third parties. The fees on these contracts are considered fixed or determinable based on Nortel Networks' standard business practice of using these types of contracts as well as Nortel Networks' history of successfully collecting under the original payment terms without making concessions. For software arrangements involving multiple elements, Nortel Networks allocates revenue to each element based on the objective evidence of relative fair values, which are derived by allocating a value to each element that is based upon the prices charged when the element is sold separately.

Nortel Networks makes certain sales through multiple distribution channels, primarily resellers and distributors. These customers are generally given certain rights of return. For products sold through these distribution channels, revenue is recognized from product sales at the time of shipment and accruals are also made for estimated returns at the time of shipment.

Accruals for warranty costs, sales returns, and other allowances at the time of shipment are based on contract terms and prior claims experience.

(d) Plant and equipment

Plant and equipment are stated at cost less accumulated amortization. Amortization is calculated generally on a straight-line basis over the expected useful lives of the plant and equipment. The expected useful lives of buildings are twenty to forty years, and of machinery and equipment are five to ten years.

(e) Research and development

Research and development ("R&D") costs are charged to earnings in the periods in which they are incurred, except for costs incurred pursuant to specific contracts with third parties which are charged to earnings in the same period as the related revenue is recognized. Related investment tax credits reduce R&D expense in the same period in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realized.

(f) Income taxes

Nortel Networks provides for income taxes based on accounting income using the deferral method. Under this method, taxes are computed using current tax rates regardless of when such income is subject to taxes under the tax laws. The deferred tax balances which result are not adjusted for any subsequent changes in tax rates, and include accrued investment tax credit benefits.

(g) Cash and cash equivalents

All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

(h) Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work in process comprises material, labour, and manufacturing overhead.

(i) Intangible assets

Purchased in-process research and development ("purchased IPR&D") represents the value on completion of a business combination of the acquired R&D which was not technologically feasible as of the acquisition date and, other than its intended use, had no alternative future use. Purchased IPR&D is charged to earnings using an accelerated amortization method over its estimated useful life of six to nine months.

Acquired technology represents the value of the proprietary "know-how" which was technologically feasible as of the acquisition date, and is charged to earnings on a straight-line basis over its estimated useful life of three years.

Goodwill represents the excess of the purchase prices over the fair values of the identifiable net assets of subsidiary companies, joint ventures, and associated companies, and is amortized on a straight-line basis over its estimated useful life of three to forty years.

The Corporation evaluates on an ongoing basis the carrying value of purchased IPR&D, acquired technology, and goodwill for potential permanent impairment. In order to determine if such a permanent impairment exists, the carrying value of these intangible assets is compared to the financial condition and the present value of the expected future earnings before tax, of the related operations. A permanent impairment in these intangible assets is written off against earnings in the year that such impairment becomes evident.

(j) Earnings per common share

Earnings per common share are calculated after deducting dividends on preferred shares from net earnings, and are based on the weighted average number of common shares outstanding during the period.

(k) Derivative financial instruments

Nortel Networks enters into forward, swap, and option contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments are effective in meeting the risk reduction objectives of the Corporation by generating cash flows which offset the cash flows related to the underlying position in respect of amount and timing. Nortel Networks does not hold or issue derivative financial instruments for trading purposes.

Forward and cross currency swap contracts are used to hedge certain net foreign investments. Gains and losses on these instruments are deferred and reported as part of CTA, as outlined in note 1(b). A target percentage of the total foreign currency risk associated with firm purchase and sale commitments denominated in a foreign currency is hedged with a combination of forward contracts, options and cross currency coupon swap contracts. The foreign currency gains and losses on these contracts are not recognized in the consolidated financial statements until the underlying firm commitment is recorded in

net earnings. At that time, the gains or the losses on the derivatives are recorded in net earnings as an adjustment to the underlying transaction. Premiums paid with respect to options are deferred and charged to net earnings over the contract period.

Interest rate and cross currency swaps are designated as hedges of the interest rate and foreign currency risk of certain financial instruments, including debt and certain receivables and payables. The interest payments relating to the swaps are recorded in net earnings over the life of the transaction on an accrual basis as an adjustment to interest income or interest expense.

(l) Use of estimates

The preparation of the Corporation's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for items and matters such as long-term contracts, allowance for uncollectible accounts receivable, inventory obsolescence, product warranty, amortization, employee benefits, taxes, provisions, and contingencies.

(m) Pension, postretirement and postemployment benefits

Pension expense, based on management's assumptions, consists of the actuarially computed costs of the pension benefits in respect of the current year's service; imputed interest on plan assets and pension obligations; and straight-line amortization of experience gains and losses, assumption changes, and plan amendments over the expected average remaining service life of the employee group. The costs of postretirement benefits and postemployment health care and life insurance benefits are expensed as incurred.

2. Information on operating segments

General description

Nortel Networks' operations include two reportable operating segments: Service Provider and Carrier segment ("SP&C") and Enterprise segment ("Enterprise"). The segments provide network solutions that integrate voice, data, and video on a single network, using a combination of packet frame and cell technologies, to two specific customer groups. SP&C delivers network solutions which are used by telecommunications operating companies and other service providers to interconnect access lines and transmission facilities to provide local or long-distance services, wireless communications systems, and solutions which transport voice, data, and video communications between locations within a city or between cities, countries, or continents. Enterprise delivers solutions consisting of electronic business systems, including call center, voice messaging and interactive response systems; Internet and data networking solutions, Open IP systems; and Enterprise telephony solutions. Enterprise customers are generally large and small businesses, governments, educational institutions, utilities and other public and private organizations.

The accounting policies of the segments are the same as those described in note 1. The Corporation evaluates financial performance based on measures of profit or loss from operations before income taxes, and dividends on preferred shares, excluding the impact of "Acquisition Related Costs" (the amortization of intangible assets from the acquisition of Bay Networks, Inc. ("Bay Networks") and all subsequent acquisitions, and the amortization of any purchased IPR&D from prior acquisitions), and one-time gains and charges (see notes 4, 6, and 7). Inter-segment revenues were immaterial for the years ended December 31, 1999, 1998, and 1997.

Operating segments

To reflect the evolution of certain businesses within the management structure, revenues and total assets by segment for the years ended December 31, 1998 and 1997 have been reclassified. Accordingly, the amounts for earnings (loss) before income taxes from operations, interest income, interest expense and amortization by segment, for the years ended December 31, 1998 and 1997 have also been reclassified. The primary effect of these reclassifications was to move certain businesses among SP&C, Enterprise, and Other to more closely align the businesses with their primary customers. The following tables set forth information by operating segment as at, and for the years ended, December 31, 1999, 1998, and 1997.

1999	SP&C	Enterprise	Corporate & Other	Total
External revenues	$ 16,761	$ 5,376	$ 80 (a)	$ 22,217
Earnings (loss) before income taxes from operations	2,181	374	(123) (b)	2,432 (c)
Interest income	34	1	99	134
Amortization excluding Acquisition Related Costs	166	74	453	693
Interest expense	19	-	153	172
Total assets	10,592	2,294	9,711	22,597

1998	SP&C	Enterprise	Corporate & Other	Total
External revenues	$ 13,338	$ 4,040	$ 197 (a)	$ 17,575
Earnings (loss) before income taxes from operations	1,334	491	(125) (b)	1,700 (c)
Interest income	20	-	101	121
Amortization excluding Acquisition Related Costs	138	31	460	629
Interest expense	23	1	208	232
Total assets	7,664	2,232	9,836	19,732

1997	SP&C	Enterprise	Corporate & Other	Total
External revenues	$ 11,528	$ 3,446	$ 475 (a)	$ 15,449
Earnings (loss) before income taxes from operations	1,179	377	(296) (b)	1,260 (c)
Interest income	20	1	71	92
Amortization excluding Acquisition Related Costs	78	26	442	546
Interest expense	12	4	153	169
Total assets	5,758	1,631	5,165	12,554

(a) Represents revenues from business units below the quantitative thresholds, primarily divested businesses.

(b) Includes corporate services, the organization that manages the centralized internal functions of the Corporation. Corporate services is managed on a "fee for service" basis. The corporate services expenses are charges to the operating segments either on a direct basis or through a matrix allocation. Direct charges are based on actual usage of services while the matrix allocation is based on revenue, headcount, or some other appropriate factor. Costs not charged to the operating segments remain within Corporate & Other. Excludes the impact of Acquisition Related Costs, one-time gains and charges, and dividends on preferred shares.

(c) Reconciliation of segment earnings before income taxes from operations to earnings before income taxes reported in the consolidated financial statements:

	1999	1998	1997
Total earnings before income taxes from operations for reportable segments	$ 2,432	$ 1,700	$ 1,260
Amortization of Acquisition Related Costs	(1,961)	(1,630)	-
One-time gains	264	441	102
One-time charges	(209)	(447)	(95)
Earnings before income taxes	$ 526	$ 64	$ 1,267

Product revenues

Nortel Networks has two groups of similar products: Enterprise products which generally address corporate intranet and Internet access; and SP&C products which generally address high-speed network transport.

The following table sets forth revenues by product line for the year ended December 31:

	SP&C	Enterprise	Corporate & Other Revenue	Total
1999	$ 16,761	$ 5,376	$ 80	$ 22,217
1998	13,338	4,040	197	17,575
1997	11,528	3,446	475	15,449

Geographic information

The following table sets forth external revenues and capital assets for the year ended, and as at, December 31, respectively:

	1999	1998	1997
External revenues (a)			
United States	$ 12,758	$ 9,839	$ 8,298
Canada	1,434	1,362	1,374
Other countries	8,025	6,374	5,777
Total external revenues	$ 22,217	$ 17,575	$ 15,449
Capital assets (b)			
United States	$ 4,607	$ 5,410	$ 729
Canada	1,011	1,082	734
Other countries	1,360	1,391	1,430
Total capital assets	$ 6,978	$ 7,883	$ 2,893

(a) Revenues are attributable to geographic areas based on the location of the customer.

(b) Represents plant and equipment – net and intangible assets that are identified with each geographic area. Capital assets excludes financial instruments and deferred tax assets.

3. Supplementary measures of net earnings and earnings per share

As a measure to assess financial performance, management utilizes supplementary measures of net earnings and earnings per common share which exclude the impact of Acquisition Related Costs and one-time gains and charges. The supplementary measures of net earnings and earnings per common share are as follows:

	1999	1998	1997
Net earnings (loss) applicable to common shares	$ (197)	$ (569)	$ 812
Add back:			
Acquisition-related amortization			
Purchased IPR&D	722	1,241	-
Acquired technology	686	228	-
Goodwill*	553	161	-
One-time gains	(264)	(441)	(102)
One-time charges	209	447	95
Net tax impact	16	(2)	(1)
Supplementary measure of net earnings	$ 1,725	$ 1,065	$ 804
Supplementary measure of earnings per common share	$ 1.28	$ .93	$ .77
Weighted average number of common shares outstanding (millions)	1,353	1,144	1,044

* Amortization for Bay Networks and all acquisitions subsequent to the acquisition of Bay Networks.

Pro forma information reflecting the impact of the proposed stock split (note 24):			
Supplementary measure of earnings per common share	$ .64	$ .47	$ .38
Weighted average number of common shares outstanding (millions)	2,705	2,288	2,089

4. Acquisitions

The following table sets out certain information for the major acquisitions completed by the Corporation in 1999 and 1998. The remainder of the purchase price allocation is also outlined below. All of these acquisitions were accounted for using the purchase method. The consolidated financial statements include the operating results of each of these businesses from the date of acquisition.

Acquisition	Date	Purchase Price	Acquired Technology	Purchased IPR&D	Goodwill
1999					
Periphonics (i)	November 12	$ 650	$ 66	$ 68	$ 414
Shasta Networks (ii)	April 16	$ 340	$ -	$ 180	$ 158
1998					
Cambrian (iii)	December 15	$ 248	$ -	$ 204	$ 48
Bay Networks (iv)	August 31	$ 6,873	$ 2,050	$ 1,000	$ 2,417
r^3 (v)	June 8	$ 24	$ -	$ 20	$ 4
Aptis (vi)	April 22	$ 286	$ -	$ 203	$ 75
BNI (vii)	January 9	$ 433	$ -	$ 329	$ 75
Other (viii)	Various	$ 83	$ -	$ -	$ -

Form of consideration and other

(i) Periphonics Corporation ("Periphonics") was a global provider of interactive voice solutions used in call centers and other voice and data network applications. In connection with the acquisition, the Corporation issued approximately 8.4 million common shares of the Corporation and assumed the equivalent of approximately 0.9 million options to purchase common shares of the Corporation (note 18). The intrinsic value attributable to these options was $45. The allocation of the purchase price included net tangible assets of $102. The acquired technology assets are being charged to earnings on a straight-line basis over thirty-six months and the purchased IPR&D assets are being charged to earnings over seven and one-half months, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over four years.

(ii) Shasta Networks, Inc. ("Shasta Networks") was a provider of gateways and systems for Internet Protocol ("IP") public data networks. In connection with the acquisition, the Corporation issued approximately 9.3 million common shares of the Corporation. In addition, the payment of $18 in cash consideration is contingent upon the achievement of certain operational milestones by Shasta Networks. The allocation of the purchase price included net tangible assets of $2. As at December 31, 1999, $9 of the contingent consideration had been paid upon achievement of operational milestones, and was recorded as an increase to the goodwill noted above. Assuming the achievement of the remaining milestones by the end of the second quarter of 2000, contingent consideration up to a maximum of $9 would be payable. The purchased IPR&D assets were charged to earnings over eight and one-half months, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over three years.

(iii) Cambrian Systems Corporation ("Cambrian") was a producer of metropolitan optical networking technology. In connection with the acquisition, the Corporation paid $231 in cash and assumed additional liabilities of $17. In addition, $60 in cash was contingent upon the achievement of certain milestone events scheduled to occur subsequent to closing, of which $31 was earned in 1999, and was recorded as an increase to the goodwill noted above. No further contingent consideration will be earned. The allocation of the purchase price included assumed liabilities net of tangible assets of $4. The purchased IPR&D assets were charged to earnings over a six-month period, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

(iv) Bay Networks was a provider of networking products and services. In connection with the acquisition, the Corporation issued approximately 270 million common shares of the Corporation and assumed the equivalent of approximately 47.3 million options to purchase common shares of the Corporation (note 18). The intrinsic value attributable to these options was $189. The allocation of the purchase price included tangible assets of $1,881 and assumed liabilities of $475. The acquired technology assets are being charged to earnings on a straight-line basis over thirty-six months and the purchased IPR&D assets were charged to earnings over a nine-month period, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

(v) Entrust Technologies Inc. ("Entrust Technologies"), formerly a Nortel Networks subsidiary, acquired r^3 Security Engineering AG ("r^3") for approximately 1.1 million common shares of Entrust Technologies and cash consideration of $4. The purchased IPR&D assets were charged to earnings over a nine-month period, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

(vi) Aptis Communications, Inc. ("Aptis") was a remote-access data networking start-up company. In connection with the acquisition, the Corporation issued approximately 5.0 million common shares of the Corporation and paid $5 in cash to the Aptis shareholders. Subject to the fulfillment of certain conditions, an additional amount of $37 in cash and common shares of the Corporation is also payable to the Aptis shareholders over a three year period through 2000, of which $3 was paid in 1998 and $28 in 1999. Included in the purchase price was $71 which was contingent upon the achievement of certain milestone events scheduled to occur subsequent to closing and was payable, at the Corporation's option, in common shares of the Corporation and/or cash, of which $61 was paid in 1998 and $10 was paid in 1999. The allocation of the purchase price included $8 to net tangible assets. The purchased IPR&D assets were charged to earnings over a nine-month period, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

(vii) Broadband Networks Inc. ("BNI") was engaged in the design and manufacture of fixed broadband wireless communications networks. In connection with the acquisition, the Corporation issued approximately 11.2 million common shares of the Corporation and cash consideration of $149. The allocation of the purchase price included net tangible assets of $29. The purchased IPR&D assets were charged to earnings over a nine-month period, using an accelerated amortization method. Goodwill is being amortized on a straight-line basis over five years.

(viii) *Other*

In December 1998, the Corporation acquired all of the common and preferred shares of Nortel Technology Limited ("Nortel Technology"), formerly known as Bell-Northern Research Ltd., owned by Bell Canada for $18 in cash (the approximate fair value of such shares). The transaction increased the Corporation's ownership of Nortel Technology from 70 percent to 100 percent. This transaction was recorded at the exchange amount.

In May 1998, Nortel Networks and Lagardère SCA ("Lagardère") entered into an amended and restated participation agreement to realign Matra Nortel Communications S.A.S., in which Nortel Networks and Lagardère each hold a 50 percent ownership interest. The agreements relating to this realignment provided for, among other things: (i) Matra Communication S.A.S. to change its name to Matra Nortel Communications S.A.S. ("MNC"), (ii) Nortel Networks to transfer at their exchange amounts the assets and liabilities of its distribution business in France to MNC, (iii) MNC to sell its 50 percent ownership in Matra Ericsson Telecommunications ("MET"), and (iv) Nortel Networks to lend $120 to MNC. The loan was payable by MNC to Nortel Networks either in cash or by way of

transfer of MNC's 34 percent equity interest in Nortel Matra Cellular SCA ("NMC"). In December 1999, Nortel Networks exercised its option, at its sole discretion, for repayment of the loan by way of transfer of the NMC shares. The transaction increased Nortel Networks' direct ownership of NMC by 34 percent to 100 percent. The transaction was recorded at the exchange amount of $120. After July 1, 1999, Lagardère may, under specific circumstances, require Nortel Networks to purchase all of its equity participation in MNC at a price to be based partly on a formula and partly on the fair market value as determined at the time. In 1999, Lagardère transferred its ownership in MNC to Aerospatiale Matra, a company controlled by Lagardère.

Purchased in-process research and development

Purchased IPR&D charges related to acquisitions of companies accounted for under the purchase method, in which a portion of the purchase price was allocated to acquired in-process technology.

During 1999, Nortel Networks completed the acquisitions of Shasta Networks and Periphonics ("the 1999 Acquisitions").

Included in the purchase price allocations for the 1999 Acquisitions was an aggregate amount of purchased IPR&D of $248. Independent valuations were performed to assess and allocate a value to purchased IPR&D. The value allocated to purchased IPR&D represented the estimated fair value based on risk-adjusted future cash flows generated from the products that would result from each of the in-process projects. Estimated future after-tax cash flows of each project, on a product by product basis, were based on Nortel Networks' estimates of revenue less operating expenses, cash flow adjustments, income taxes, and charges for the use of contributory assets. Future cash flows were also adjusted for the value contributed by any core technology and development efforts that were completed post acquisition.

Revenues were estimated based on relevant market size and growth factors, expected industry trends, individual product sales cycles, the estimated life of each product's underlying technology, and historical pricing. Estimated operating expenses include cost of goods sold, selling, general and administrative, and R&D expenses. The estimated R&D expenses include costs to maintain the products once they have been introduced into the market and are generating revenues, and costs to complete the purchased IPR&D. Operating expense estimates were consistent with historical margins and expense levels for similar products.

The discount rates used to discount the projected net returns were based on a weighted average cost of capital relative to Nortel Networks and the telecommunications industry, as well as the product specific risk associated with the purchased IPR&D products. Product specific risk includes the stage of completion of each project, the complexity of the development work completed to date, the likelihood of achieving technological feasibility, and market acceptance.

The forecast data employed in the analyses was based upon both forecast information maintained by target management and Nortel Networks management's estimate of future performance of the business. The inputs used by Nortel Networks in analyzing purchased IPR&D were based upon assumptions that management believes to be reasonable but which are inherently uncertain and unpredictable. These assumptions may be incomplete or inaccurate, and no assurance can be given that unanticipated events and circumstances will not occur. Accordingly, actual results may vary from the forecasted results. While management believes that all of the development projects would be successfully completed, failure of any of these projects to achieve technological feasibility, and/or any variance from forecasted results, may result in a material adverse effect on Nortel Networks' financial condition and results of operations.

A brief description of the purchased IPR&D projects related to the 1999 Acquisitions is set forth below including an estimated percentage of completion of products within each project at their respective acquisition dates.

Periphonics

VPS/is Version 6.x. The Voice Processing Services Information Server ("VPS/is") is a scalable transaction processing system that can be configured for both small and very large installations. The system allows a caller to access information in an organization's computer database through a touch tone telephone, speech input or Internet, and to receive the information from that database in the form of a computer generated voice response. Version 6.x represents a redesign of the existing VPS/is product, which will include reduced system cost, higher density, more features, greater reliability and increased scalability. Nortel Networks estimated that the project was 91 percent complete, that it would require approximately $1.0 to successfully complete the project, and that product revenues would begin during the first half of 2000. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 18.0 percent was employed in the analysis.

CallSPONSOR Version 4.x. CallSPONSOR is a Computer Telephony Integration server product that integrates one or more private branch exchange/automatic call distribution systems, Interactive Voice Response ("IVR") systems and desktop applications which allows call-center agents to utilize information already captured by the IVR system. Version 4.x represents a significant expansion in available application modules, as well as a re-write of the existing core modules. Specific new modules under development include the provision of inter-switch routing, operator data recording and operator preview dialing. Nortel Networks estimated that the project was 74 percent complete, that it would require approximately $0.6 to successfully complete the project, and that product revenues would begin during the first half of 2000. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 18.0 percent was employed in the analysis.

PeriDirect. PeriDirect is an application designed for financial services companies to automate complex financial transactions. This product will work in conjunction with the VPS/is system. Features under development included: multi-channel access supporting advanced speech processing, Internet, facsimile and IVR from a single platform and host connection; modular design; and support for multiple platforms and technology. Nortel Networks estimated that the project was 90 percent complete, that it would require approximately $10.3 to successfully complete the project, and that product revenues would begin during the first half of 2000. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 18.0 percent was employed in the analysis.

Shasta Networks

Subscriber Service System ("SSS"). The SSS platform represents a new class of telco-scale, service-creation gateways for the subscriber edge of public data networks. The basic SSS platform consists of three highly interlinked components, the Services Subscriber Gateway, the Subscriber Policy Manager, and the IP Service Operating System. Upgrades consist of customer/market driven functionality including additional interfaces (i.e., Packet over Sonet), Lightweight Directory Access Protocol and Multi-Protocol Label Switching services, and support for additional routing protocols. As of the acquisition date, progress related to the development of the SSS platform had been made in hardware and software system specifications and prototype hardware integration. Remaining development efforts included: frame and IP protocol stacks; security; prototyping; and testing activities. Nortel Networks estimated that the platform was 80 percent complete and the upgrades were 50 percent complete, and that it would require approximately $9.3 to successfully complete the entire system. Nortel Networks anticipated that benefits in the form of product revenues would begin by the end of calendar year 1999. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 38.0 percent was employed in the analysis. This project was completed on schedule.

The following updates projects from other acquisitions that were in-process as at December 31, 1999:

Bay Networks

An ultra high performance internet protocol router, which directs traffic on the network, designed for the core of the next generation IP carrier and service provider networks. As of the acquisition date, all Phase 1 planning and specification activities were complete and the project was in the Phase 2 design, implementation and testing stage. Remaining development efforts included additional design, prototyping and testing activities. Nortel Networks estimated that the project was 50 percent complete, that it would require approximately $30.5 to successfully complete the project, and that product revenues would begin in late 1999. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 22.5 percent was employed in the analysis. This project is currently in beta testing and is scheduled for release in early 2000.

A modular wide area network edge router, which directs communications on the network, for medium-scale branch office applications. As of the acquisition date, all Phase 1 planning and specification activities were complete and the project was in the Phase 2 design, implementation and testing stage. Remaining development efforts included design, prototyping and testing activities. Nortel Networks estimated that the project was 55 percent complete, that it would require approximately $17.0 to successfully complete the project, and that product revenues would begin in mid-1999. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 20.0 percent was employed in the analysis. Completion of this project was delayed and is expected to be achieved by approximately mid-2000 due to resource prioritization.

A next generation version of Bay Networks' Accelar product, comprised of a high performance, high density routing switch, a technology which directs traffic on the network. As of the acquisition date, this project was nearing completion of the Phase 1 planning and specification stage. Remaining development efforts included design, prototyping and testing activities. Nortel Networks estimated that the project was 55 percent complete, that it would require approximately $32.0 to successfully complete the project, and that product revenues would begin in late 1999. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 22.5 percent was employed in the analysis. Completion of this project has been delayed and is expected to be achieved in the first quarter of 2000.

MCNS, CM, CMTS. Design of a standard based cable modem, which allows remote data communications, and a cable headend unit, which receives communications from a cable modem, that comply with a specification known as the Data Over Cable Service Interface Specification ("DOCSIS"). As of the acquisition date, all Phase 1 planning and specification activities were complete and the project was in the Phase 2 design, implementation and testing stage. Remaining development efforts included prototyping and testing activities. Nortel Networks estimated that the project was 50 percent complete, that it would require approximately $26.0 to successfully complete the project, and that product revenues would begin in late 1998. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 20.0 percent was employed in the analysis. This project experienced delays in completion of the cable modem product due to difficulties in the DOCSIS certification process. The cable headend unit was completed in the second quarter of 1999.

Cambrian

OPTera. OPTera, an acronym for Optical Protocol Independent Transport Era, represented Cambrian's research efforts in the area of Dense-Wavelength Division Multiplexing ("DWDM") technology for use in interoffice networks and Metropolitan Area Networks ("MAN"), including central office to central office networks, Business Fiber Loop Access, and Multi-Site Enterprise Lan interconnections. The technology under development by Cambrian was unique in that it was the first DWDM technology built from the ground up for the MAN market. As a result, it was expected to include unique functionality such as a survivable ring-based network and a considerably lower cost structure than long-haul DWDM products, which are based on point-to-point architecture and less flexible components. As of the acquisition date, progress related to the development of OPTera had been made in concept product requirements and system design, key components qualifications, physical packaging design, software development, and system integration. Remaining development efforts for the basic platform included: development and resolution of control introduction-gated functionality; overhead channel performance; network equipment building standard testing; and European safety approvals. Remaining development efforts for the SP&C upgrades include development of a

2.5 gigabit card and software developments related to amplification, tributary protection, connectivity, management and interfaces. Nortel Networks estimated that the basic platform and SP&C upgrades were 85 percent and 50 percent complete, respectively, and that it would require approximately $21.0 to successfully complete the projects. Nortel Networks anticipated that benefits in the form of product revenues would begin during 1999. No acquirer specific synergies were explicitly employed in the analysis of the purchased IPR&D. A discount rate of 25.0 percent was employed in the analysis. This project was completed on schedule with the Enterprise release in April 1999 and the SP&C release in December 1999.

Nortel Networks does not specifically track revenues generated from the in-process technology subsequent to its acquisitions. It is Nortel Networks' normal practice to begin integration of all acquired businesses following the closing of the transaction. This includes management responsibilities, financial reporting and human resources. Furthermore, in order for Nortel Networks to succeed in the highly competitive and rapidly changing marketplace in which it operates, acquired assets must be integrated quickly into its Unified Networks solutions as enhancements of existing technology or as part of a larger platform.

5. Research and development

	1999	1998	1997
R&D expense	$ 2,908	$ 2,453	$ 2,147
R&D costs incurred on behalf of others*	131	97	125
Total	$ 3,039	$ 2,550	$ 2,272

* These costs include R&D charged to customers of Nortel Networks pursuant to contracts that provide for full recovery of the estimated cost of development, material, engineering, installation, and all other attracted costs, which are accounted for as contract costs.

The above amounts are net of global investment tax credits of $153, $125, and $123 in 1999, 1998, and 1997, respectively.

6. Special charges

	1999	1998	1997
Workforce reduction	$ 87	$ 277	$ 26
Write-down of equipment and other assets	18	71	54
Contract settlement and lease costs	38	23	13
Facilities impairment	23	-	-
Other	43	76	2
Total special charges	209	447	95
Cumulative draw-downs	(27)	(436)	(95)
Provision balance	$ 182	$ 11	$ -

1999

In 1999, the Corporation recorded special charges aggregating to $209 relating to restructuring costs and other charges.

Restructuring activities involved the Corporation's exit of the Satellite and time division multiple access ("TDMA") small switch operations within SP&C, and the Consumer Products and Open Speech operations within Enterprise. The restructuring activities also involved the consolidation of the Broadband Wireless Access ("BWA") operations, as well as the streamlining of SP&C manufacturing operations related to the Corporation's strategy announced in January 1999.

Also reflected in the 1999 restructuring costs were charges associated with the Corporation's initiative to realign its resource investment into growth areas in response to industry shifts as well as create efficiencies within the Corporation's existing organizations. This initiative impacted various organizations within SP&C and Enterprise largely within North America including the Mobility, Marketing and Communications, Global Service and Portfolio Networks organizations. The Corporation also restructured, for purposes of outsourcing, its corporate processes including a portion of its payroll, accounts payable, training, and resourcing functions.

Workforce reduction

This charge represented the cost of severance and related benefits for the termination of approximately 1,970 employees in the above noted restructuring activities.

Workforce reduction costs of approximately $6 related to approximately 120 employees, primarily located in Canada, in connection with the consolidation of the BWA operations. A charge of approximately $15 related to approximately 350 employees, in Canada and the United States, within Enterprise, as well as approximately 100 employees in the Caribbean and Latin America, related to the Corporation's exit from two of its businesses.

Workforce reduction costs of approximately $17 represented the costs for the termination of approximately 310 employees in SP&C manufacturing operations in Belleville, Ontario related to the Corporation's strategy announced in January 1999 to streamline these operations.

Approximately $27 of the workforce reduction charge related to approximately 440 employees, largely in Canada and the United States, for the Corporation's realignment of its resource investment for its various organizations within SP&C and Enterprise. The remaining charges of approximately $22 represented the termination costs for approximately 650 individuals related to the outsourcing of certain of the Corporation's corporate processes.

Write-down of equipment and other assets

In conjunction with the Corporation's exit of its Consumer Products, Open Speech and Satellite operations, as well as the restructuring of its BWA operations, the Corporation determined various tooling, test, and diagnostic equipment to be redundant. Due to its specialized nature, this equipment could not be used in other areas and the Corporation recorded a provision reflecting the net book value related to these assets.

Contract settlement and lease costs

This charge included lease termination costs for the BWA and Open Speech operations, as well as the write-off of leasehold improvements and furniture and fixtures related to these facilities. The Corporation determined that the sublet of these premises was unlikely and therefore the costs reflected amounts accrued for the remaining terms of the leases. Contract settlement costs included a negotiated settlement to cancel a contract with one customer within the Satellite operations and other contract settlements affected by the Corporation's exit activities.

Facilities impairment

In 1998, the Corporation exited its Fixed Wireless Access ("FWA") operations with the intention to vacate its related facility in Paignton, United Kingdom. In 1999, management determined an impairment in the value of this facility and, on the basis of an independent appraisal, the Corporation recorded a charge representing the difference between the net book value of the building and the appraised value.

Other

The restructuring of the above noted businesses resulted in the Corporation abandoning several of its existing products and new product introductions. A charge of $16 represented the write-off of the remaining book value of redundant raw materials inventory related to the Consumer Products operations and the SP&C operations. This inventory, due to its specialized nature, was not usable in other products. Also included in other charges was a one-time, non-recurring charge of $20 for the Corporation's coverage of an obligation by a customer to a third party. The Corporation also recorded a non-recurring and non-operational charge of $7 related to the settlement of a patent infringement suit.

Status of provision

Expenditures of approximately $27 have been applied against the provision, resulting in a provision balance of $182 as at December 31, 1999. The flow of payments is expected to be substantially completed by the fourth quarter of 2000.

1998

In 1998, the Corporation recorded special charges aggregating to $447 relating to restructuring costs and other charges.

As part of its streamlining activities, the Corporation significantly downsized operations in SP&C and Enterprise including its GSM, Consumer Products, North American Terminals, and Meridian organizations. The Corporation also exited its FWA operations within SP&C, primarily located in Paignton, United Kingdom.

Workforce reduction

This charge represented the cost of severance and related benefits for the termination of approximately 4,620 employees in the above noted restructuring activities.

Workforce reduction costs of $261 related to the above noted streamlining activities. Approximately $18 of this provision related to approximately 350 employees in Enterprise, approximately $49 related to approximately 500 employees in Corporate activities and the remaining approximate $194 related to approximately 3,270 employees in SP&C.

The remaining $16 related to the restructuring of the FWA operations in Paignton, United Kingdom which impacted approximately 300 employees, and the closure of certain of the Corporation's R&D facilities in Canada which impacted approximately 200 employees.

Write-down of equipment and other assets

Approximately $28 of these charges related to a significant re-focussing and product shifting, as well as the cancellation of certain new product introductions, that resulted in redundancy of various test and diagnostic equipment. Due to the specialized nature of this equipment, it could not be re-deployed for use with other products. The write-down represented the difference between the book value and the nil fair value. All assets written down were scrapped and sent to internal reclamation operations. No assets were held for disposal.

The Corporation also recorded a write-down of investments of $27. Approximately $22 of the $27 related to a working capital loan to a start-up Internet Service Provider. Nortel Networks intended for this to be a one-time arrangement and did not intend to enter into similar financing arrangements in the future. As this amount was not realizable, a provision was taken. A charge of $5 related to housing that the Corporation owned in China used by expatriate employees of Nortel Networks. A write-down was considered necessary due to the fact that the fair market value provided by an independent valuator was lower than the carrying value of the real estate.

The remaining $16 represented a write-down of the Corporation's investment in MNC as a result of a decision by MNC to exit product lines that were unprofitable.

Contract settlement and lease costs

Lease settlement charges of approximately $7 related to equipment used in the exited Internet operations within Enterprise. These Internet operations involved the creation and maintenance of web-sites and the charges reflected terms established as part of the original lease agreement. In addition, approximately $16 was charged for facilities costs related to the write-off of leasehold improvements and lease cancellation costs for vacated premises, which housed the Custom Network Applications operations and the North American Terminals operations.

Other

The restructuring of the above noted operations resulted in the Corporation abandoning several of its existing products and new product introductions. Approximately $75 of this charge represented the write-off of the remaining book value of redundant components and finished goods inventory. This inventory, due to its specialized nature, was not usable in other products. The amount written off was the book value of the inventory net of existing provisions for excess or obsolescence. A smaller amount of inventory on discontinued products, primarily within the North American Terminals business, was written down to its estimated market value and subsequently sold to customers.

Status of provision

Expenditures of approximately $436 have been applied against the provision, resulting in a provision balance of $11 as at December 31, 1999. The flow of payments against the provision has been substantially completed.

1997

In 1997, the Corporation recorded special charges aggregating to $95 relating to restructuring costs and other charges.

Workforce reduction

This charge represented the cost of severance and related benefits for the termination of approximately 690 employees in the above noted restructuring activities.

Approximately 690 employees at a cost of $26 were affected by the Corporation's 1997 restructuring actions. This included: 220 in Germany in the SP&C GSM manufacturing facility; 460 employees in the Enterprise Terminals manufacturing facilities in Wales and Canada; and 10 employees in the Channel distribution office in France.

Write-down of equipment and other assets

The Corporation recorded a write-down related to a number of investments. The largest of these write-downs related to the Corporation's investment in ICL, plc, for which the Corporation wrote down the investment's book value by $22. This investment was sold in 1998 for the approximate book value after the write-down.

Approximately $16 related to write-downs of the Corporation's investments in two joint ventures in China and one in Taiwan. The write-downs related to the China joint ventures were based on a business valuation. Changes in the Taiwan telecommunications standards rendered the Taiwan joint venture's existing products incompatible which, compounded with a poor financial performance outlook, warranted the recognition of a permanent impairment in the asset.

An additional $13 of write-downs resulted from the Corporation's periodic review of its investment portfolio, which reflected permanent impairments in the value of certain investments.

A charge of $3 related to the write-down of redundant manufacturing equipment as a result of the restructuring plans discussed above. The fixed asset charge reflected the net book value of these assets, which due to their specialized nature did not have a resale or salvage value.

Contract settlement and lease costs

These costs related to lease termination costs and the write-down of leasehold improvements for the vacated premises. Lease termination costs comprised of known termination amounts reflecting terms established in lease contracts and amounts accrued in existing leases where the likelihood of subletting was not strong.

Other

The Corporation's decision to restructure the Enterprise Terminals manufacturing facilities in Wales resulted in product phase-outs. This resulted in redundant inventory that, due to its specialized nature, was not usable in other products. Accordingly, the Corporation wrote down the book value of the inventory, net of existing provisions for excess or obsolescence.

Status of provision

Expenditures of approximately $95 have been applied against the provision, resulting in a nil provision balance.

7. Other income – net

	1999	1998	1997
Interest income	$ 134	$ 121	$ 92
Royalty income	60	38	26
Currency exchange losses	(102)	(74)	(50)
Minority interest	(1)	15	(26)
Gain on sale of investments	133	183	-
Gain on sale of businesses	131	258	102
Other	2	(49)	(56)
Other income – net	$ 357	$ 492	$ 88

Other income – net for 1999 included a gain of $131, primarily related to transactions for the divestiture of certain of the Corporation's manufacturing and repair operations and assets. Also included was a gain of $76 related to a sale by the Corporation of a portion of its share ownership in Entrust Technologies.

Other income – net for 1998 included a gain of $258, primarily related to the sale of the Corporation's Advanced Power Systems business. Also included was a gain of $89 related to the sale of common shares of Entrust Technologies, and a total reduction of the Corporation's ownership from 72.9 percent to 53.4 percent in Entrust Technologies, resulting from the issuance of common shares by Entrust Technologies in connection with the r^3 acquisition and an initial public offering completed by Entrust Technologies in 1998.

Other income – net for 1997 included a gain of $102 related to the sale of the Corporation's TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC ("WilTel") for which Nortel Networks received cash proceeds of $216 and a 30 percent ownership interest in WilTel.

8. Income taxes

The following is a reconciliation of income taxes, calculated at the Canadian combined federal and provincial income tax rate, to the income tax provision included in the consolidated statements of operations for the years ended December 31:

	1999	1998	1997
Income taxes at Canadian rates (1999 – 42.9%, 1998 – 43.0%, 1997 – 43.0%)	$ 226	$ 28	$ 545
Reduction of Canadian taxes applicable to manufacturing profits	(40)	(18)	(14)
Difference between Canadian rate and rates applicable to subsidiaries in the United States and other jurisdictions	(108)	(86)	(50)
Difference between basic Canadian rate and rates applicable to gain on sale of businesses	(32)	(30)	(35)
Non-deductible amortization of acquired intangibles	842	735	21
Stock options deduction	(243)	(28)	(38)
Other	51	-	9
Income tax provision	$ 696	$ 601	$ 438

	1999	1998	1997
Details of Nortel Networks' income taxes:			
Earnings (loss) before income taxes:			
Canadian, excluding gain on sale of businesses	$ 328	$ (1,036)	$ 156
United States and other, excluding gain on sale of businesses	67	842	1,009
Gain on sale of businesses	131	258	102
	$ 526	$ 64	$1,267
Income tax provision:			
Canadian, excluding gain on sale of businesses	$ 183	$ 86	$ 63
United states and other, excluding gain on sale of businesses	488	434	366
Gain on sale of businesses	25	81	9
	$ 696	$ 601	$ 438
Income tax provision:			
Current	$ 882	$ 641	$ 484
Deferred	(186)	(40)	(46)
	$ 696	$ 601	$ 438

The deferred portion of the income tax provision results from the recognition of certain revenues and expenses in the financial statements in different periods from those for income tax purposes. The following is a summary of the components of the deferred income tax provision for the years ended December 31:

	1999	1998	1997
Amortization	$ (35)	$ (13)	$ (8)
Contracts in progress and other income items	-	-	(2)
Realignment costs and other charges	(71)	(65)	8
Gain on sale of businesses	4	(14)	(2)
Bad debt reserve	(32)	(32)	(21)
Other	(52)	84	(21)
	$ (186)	$ (40)	$ (46)

At December 31, 1999, for income tax purposes Nortel Networks had operating loss carryforwards of approximately $420 which had not been recognized in the financial statements, the majority of which expire between 2000 and 2005, and approximately $130 from other foreign jurisdictions excluding the United States, which can be applied indefinitely against future income.

The Corporation's effective tax rate for the years ended December 31, 1999, 1998 and 1997 was 28.0, 35.5 and 34.5 percent, respectively, excluding the amortization of Acquisition Related Costs of $1,961, $1,630 and nil, for the above noted periods respectively. The decrease in the effective tax rate for 1999 compared to 1998 was primarily a result of a higher United States tax deduction amount associated with the exercise of stock options.

9. The effect of applying United States GAAP

The Corporation's accounting policies are consistent in all material respects with United States GAAP, except for the information disclosed in notes 3, 20, and 23, and as noted as references to the condensed consolidated financial information prepared in accordance with United States GAAP shown below:

Condensed consolidated statements of operations (i)

	Year ended December 31,		
	1999	1998	1997
Revenues (ii)	$ 21,287	$ 16,857	$ 14,581
Cost of revenues (iii) (iv) (v)	12,063	9,645	8,501
Gross profit	9,224	7,212	6,080
Selling, general and administrative expense (iii) (iv) (v)	3,979	2,983	2,564
Research and development expense (vii)	2,992	2,532	2,221
Purchased in-process research and development (viii)	252	1,756	-
Amortization of intangibles			
Acquired technology	686	228	-
Goodwill (ix)	1,207	423	32
Special charges (v)	160	313	12
Gain on sale of businesses (vi)	(131)	(258)	(102)
	79	(765)	1,353
Equity in net earnings (loss) of associated companies	41	(64)	(54)
Other income – net (v) (vi) (x)	246	221	(49)
Interest expense			
Long-term debt	(93)	(107)	(119)
Other	(71)	(115)	(38)
Earnings (loss) before income taxes	202	(830)	1,093
Income tax provision (vii) (xi) (xii)	526	420	381
Net earnings (loss)	(324)	(1,250)	712
Dividends on preferred shares	27	32	17
Net earnings (loss) applicable to common shares	$ (351)	$ (1,282)	$ 695
Earnings (loss) per common share (xiii)			
- basic	$ (.26)	$ (1.12)	$ .67
- diluted	$ (.26)	$ (1.12)	$ .65
Dividends declared per common share	$ .15	$ .15	$ .15
Weighted average number of common shares outstanding (millions)			
- basic	1,353	1,144	1,044
- diluted	1,382	1,181	1,067

	1999	1998	1997
	Year ended December 31,		
Pro forma information reflecting the impact of the proposed stock split (note 24):			
Basic earnings (loss) per common share – United States GAAP	$ (.13)	$ (.56)	$ .33
Fully diluted earnings (loss) per common share – United States GAAP	$ (.13)	$ (.56)	$ .32

Statements of comprehensive income

For the purpose of reporting under United States GAAP, the following statements of comprehensive income are required:

	1999	1998	1997
	Year ended December 31,		
Net earnings (loss) applicable to common shares – United States GAAP	$ (351)	$ (1,282)	$ 695
Change in currency translation adjustment	(99)	(42)	(80)
Change in unrealized gain on investments – net	13	10	-
Comprehensive income (loss)	$ (437)	$ (1,314)	$ 615

Balance sheets (i)	As at December 31, 1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,153	$ 2,230
Accounts receivable (xiv)		
Related parties (ii)	318	246
Trade (less provision for uncollectibles – $319 for 1999, $253 for 1998)	5,784	4,904
Inventories	2,823	1,595
Prepaid expenses	272	214
Deferred income taxes (xi)	826	672
	12,176	9,861
Long-term receivables (less provision for uncollectibles – $284 for 1999, $109 for 1998) (xiv)	1,356	519
Investments at cost and associated companies at equity (x)	1,072	892
Plant and equipment – net	2,333	2,161
Long-term deferred income taxes (iii) (iv) (xi)	362	342
Intangible assets		
Acquired technology – net	1,202	1,822
Goodwill – net (ix)	5,093	5,802
	6,295	7,624
Other assets	413	429
Total assets	$ 24,007	$ 21,828

	As at December 31,	
	1999	**1998**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$ 209	$ 168
Accounts payable and accrued liabilities (xiv)		
Trade and other payables	2,360	1,428
Related parties	1	9
Payroll	103	169
Other liabilities	3,906	3,510
Income taxes payable	488	255
Long-term debt due within one year	35	15
Deferred income taxes (iii) (iv) (xi)	-	2
	7,102	5,556
Long-term liabilities		
Deferred income	53	58
Long-term debt (xiv)	1,391	1,514
Deferred income taxes (x) (xi)	767	898
Other liabilities (iii) (iv) (x)	966	914
	10,279	8,940
Minority interest in subsidiary companies	48	89
Shareholders' equity		
Preferred shares, without par value	609	609
Common shares, without par value	11,745	10,109
Retained earnings	966	1,533
Additional paid-in capital (xii)	794	896
Unrealized gain on investments – net (xv)	23	10
Foreign currency translation adjustment	(457)	(358)
	13,680	12,799
Total liabilities and shareholders' equity	$ 24,007	$ 21,828

(i) For the purpose of reporting under United States GAAP, companies are required to consolidate controlled subsidiaries in which they have a majority (in excess of 50 percent) of the voting stock interest and continuous control over the determination of the strategic operating, investing, and financing policies of those subsidiaries, and are required to equity account for joint ventures and for investments over which they have significant influence. Under Canadian GAAP, companies are required to consolidate those subsidiaries over which they have continuous control of the determination for the strategic operating, investing, and financing policies, to proportionately consolidate investments in which they have joint control, and to equity account for investments over which they have significant influence. As disclosed in note 20, the Corporation proportionately consolidates its joint ventures under Canadian GAAP. In addition, the Corporation has one company that qualifies as a controlled subsidiary of the Corporation under Canadian GAAP, but which does not qualify as a controlled subsidiary under United States GAAP. Accordingly, this company's results are consolidated into the Corporation's results under Canadian GAAP and are accounted for using the equity method under United States GAAP.

(ii) For the purpose of reporting under Canadian GAAP, the recognition of the Corporation's interest in sales by the Corporation to joint ventures is eliminated under proportionate consolidation. For the purpose of reporting under United States GAAP, the Corporation does not proportionately consolidate these joint ventures and accordingly the sales by the Corporation to these joint ventures are recognized as revenues. As a result, under United States GAAP, related party revenues were $2,259, $1,914 and $1,248 for the years ended December 31, 1999, 1998 and 1997, respectively. Related party revenues reported under Canadian GAAP are disclosed in note 10.

(iii) For the purpose of reporting under United States GAAP, companies are required to accrue the expected cost of postretirement benefits other than pensions to active employees during the years employees provide service to the company. Under Canadian GAAP, the cost of postretirement benefits are recorded as claims are paid.

The following disclosure is based upon reports from independent consulting actuaries as at December 31:

	1999	1998	1997
Accrued postretirement benefit cost:			
Accumulated postretirement benefit obligation	$ 614	$ 618	$ 580
Plan assets at fair value	(37)	(36)	(36)
Unrecognized prior service cost	(52)	(56)	(61)
Unrecognized net gain (loss)	32	(45)	(39)
Accrued postretirement benefit cost	$ 557	$ 481	$ 444
Postretirement benefit cost:			
Service cost	$ 31	$ 24	$ 21
Interest on projected plan benefits	44	41	40
Expected return on plan assets	(3)	(3)	(3)
Amortization	5	4	4
Postretirement benefit cost	77	66	62
Less: Claims paid and expensed under Canadian GAAP	20	15	15
United States GAAP adjustment for postretirement benefits	$ 57	$ 51	$ 47
After tax impact of adjustment	$ 37	$ 31	$ 29
Assumptions:			
Weighted average discount rate	7.4%	6.8%	7.1%
Expected long-term rate of return on assets	8.0%	8.5%	7.8%
Weighted average health care cost trend rate	7.7%	8.0%	7.7%
Weighted average ultimate health care cost trend rate	5.0%	4.8%	5.3%
Year in which ultimate health care cost trend rate will be achieved	2004	2004	2002

	1999	1998
Change in postretirement benefit obligation:		
Benefit obligation at beginning of year	$ 618	$ 580
Service cost	31	24
Interest on projected plan benefits	44	41
Plan participants' contributions	1	1
Actuarial (gain) loss	(73)	8
Settlements/curtailments	(5)	-
Benefits paid	(17)	(17)
Foreign exchange	15	(19)
Benefit obligation at end of year	$ 614	$ 618

	1999	1998
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 36	$ 36
Employer contributions	6	7
Plan participants' contributions	1	1
Benefits paid	(11)	(10)
Expected interest on assets	3	3
Actuarial gain	-	1
Foreign exchange	2	(2)
Fair value of plan assets at end of year	$ 37	$ 36

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage-point increase	1-percentage-point decrease
Effect on accumulated postretirement benefit obligation	$ 100	$ (68)
Effect on aggregate of the service and interest cost components of net postretirement benefit cost	4	(3)

(iv) For the purpose of reporting under United States GAAP, companies are required to accrue, during the years employees provide service to the company, the expected cost of benefits to former or inactive employees after employment, but before retirement. The adjustment represents the difference between recognizing the costs of postemployment benefits as claims are paid and using the accrual method. The net accrued postemployment benefit cost that had not been accrued under Canadian GAAP as at December 31, 1999 and 1998 was $21 and $23, respectively.

(v) Special charges

For the purpose of reporting under United States GAAP, companies are required to record inventory provisions related to restructuring in cost of revenues. Under Canadian GAAP, companies are permitted to classify inventory provisions related to restructuring as special charges. Accordingly, under United States GAAP, inventory provisions of $16, $75, and $2 for 1999, 1998, and 1997, respectively, have been reclassified from special charges to cost of revenues. A description of these inventory amounts is provided in note 6.

For the purpose of reporting under United States GAAP, costs to exit a product line incurred by a joint venture, which is accounted for as an equity investment, should be recorded against equity earnings. Under Canadian GAAP, using the proportionate consolidation method, companies are permitted to record these as special charges. Accordingly, under United States GAAP, costs to exit product lines of $16 for 1998, have been reclassified from special charges to equity earnings. A description of these product line exit costs is provided in note 6.

For the purpose of reporting under United States GAAP, companies are required to classify a loan loss as selling, general and administrative. Under Canadian GAAP, companies are permitted to classify these amounts as special charges. Accordingly, under United States GAAP, loan loss charges of $22 for 1998 have been reclassified from special charges to selling, general and administrative. A description of these amounts is provided in note 6.

For the purpose of reporting under United States GAAP, companies are required to classify write-downs of investments as non-operating charges. Under Canadian GAAP, companies are permitted to classify write-downs of investments as special charges. Accordingly, under United States GAAP, investment write-downs of $5 and $51 for 1998 and 1997, have been reclassified from special charges to other income – net. A description of these investments is provided in note 6.

For the purpose of reporting under United States GAAP, companies are required to classify other charges as selling, general and administrative. Under Canadian GAAP, companies are permitted to classify these amounts as special charges. Accordingly, under United States GAAP, other charges of $33 for 1999 have been reclassified from special charges to selling, general and administrative. A description of these amounts is provided in note 6.

(vi) For the purpose of reporting under United States GAAP, gains on sale of businesses must be recognized within operating earnings. Under Canadian GAAP, companies are permitted to classify these items within the non-operating section.

(vii) For the purpose of reporting under United States GAAP, global investment tax credits (see note 5) are required to be deducted from the income tax provision. Under Canadian GAAP, global investment tax credits are required to be deducted from R&D expense.

(viii) For the purpose of reporting under United States GAAP, companies are required to immediately write off purchased IPR&D and, accordingly, the purchased IPR&D acquired on acquisitions in 1999 and 1998 was written off at the time of acquisition. Under Canadian GAAP, companies are required to capitalize purchased IPR&D and amortize these assets over their useful lives.

(ix) For the purpose of reporting under United States GAAP, stock options assumed on acquisition are recorded at fair value. For the purpose of reporting under Canadian GAAP, companies are permitted to record assumed stock options at the intrinsic value. In addition, as a result of the use of the asset and liability approach in accounting for income taxes under United States GAAP, a deferred income tax liability is calculated in respect of the acquired technology assets in accounting for the purchase under United States GAAP.

Accordingly, for the purpose of reporting under United States GAAP, the aggregate purchase price of Bay Networks was approximately $9,060, which was based on the average closing market price of the Corporation's common shares around June 15, 1998 (the date of the announcement of the transaction), the fair value of the assumed Bay Networks stock options, and the merger-related costs. The fair value of the assumed Bay Networks stock options, using the Black-Scholes valuation model, resulted in further additional paid-in capital of $659. The allocation of the purchase price under United States GAAP was to tangible assets of $1,881, assumed liabilities of $1,223, including a deferred income tax credit of $748, acquired technology assets of $2,050, purchased IPR&D of $1,000, and goodwill of $5,352.

For the purpose of reporting under United States GAAP, the aggregate purchase price of Periphonics was approximately $481 based on a fixed exchange ratio determined on the average closing market price of the Corporation's common shares for the ten days preceding the two days prior to the close date, and the fair value of the assumed Periphonics stock options. The fair value of assumed Periphonics stock options, using the Black-Scholes valuation model, was $30. The allocation of the purchase price under United States GAAP was to tangible net assets of $76, including a deferred income tax credit of $26, acquired technology assets of $66, purchased IPR&D of $68, and goodwill of $271.

(x) For the purpose of reporting under United States GAAP, companies are required to record in income mark-to-market adjustments on financial instruments that do not meet the specific criteria for hedge accounting. Under Canadian GAAP, certain financial instruments related to cross currency coupon swap contracts qualify for hedge accounting. These same financial instruments do not qualify for hedge accounting under United States GAAP and therefore require the recognition of a mark-to-market differential.

(xi) For the purpose of reporting under United States GAAP, companies are required to use the asset and liability approach in accounting for income taxes. Under Canadian GAAP, companies are permitted to use the deferral method. In addition, as a result of the use of the asset and liability approach in accounting for income taxes under United States GAAP, a deferred income tax liability was calculated and recorded in respect of the acquired technology assets related to the purchase of Periphonics in 1999 and Bay Networks in 1998. The following table shows the main items included in deferred income taxes under United States GAAP as at December 31:

	1999	1998
Deferred income taxes:		
Assets:		
Tax benefit of loss carryforwards and tax credits	$ 306	$ 450
Provisions and reserves	915	752
Postretirement benefits other than pensions	163	132
Amortization	7	(20)
Pensions	(14)	(79)
Other	19	29
	1,396	1,264
Valuation allowance	(208)	(250)
	1,188	1,014
Liabilities:		
Acquired technology	440	665
Tax benefit of loss carryforwards and tax credits	(51)	(23)
Provisions and reserves	376	300
Postretirement benefits other than pensions	(106)	(90)
Amortization	46	46
Pensions	(19)	(22)
Other	56	24
	742	900
Valuation allowance	25	-
	767	900
Net deferred income tax assets	$ 421	$ 114

(xii) For the purpose of reporting under United States GAAP, the tax benefit associated with deductible stock option compensation is treated as an increase in additional paid-in capital. Under Canadian GAAP, the income tax benefit can be treated as a reduction to the income tax provision if compensation costs are not recorded.

(xiii) For the purpose of reporting under United States GAAP, companies are required to present basic earnings per share which is calculated on a basis consistent with the calculation under Canadian GAAP. Under United States GAAP, companies are also required to present diluted earnings per share using the treasury stock method when entities have complex capital structures, which differs from the method of computing fully diluted earnings per common share under Canadian GAAP.

For the purpose of reporting under United States GAAP, companies are required to provide a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share. For 1999 and 1998, the effect of converting options and redeemable preferred shares was antidilutive. The following table presents the calculation of basic and diluted earnings per common share for 1997:

	1997
Net earnings applicable to common shares	$ 695
Effect of dilutive securities:	
Cumulative Redeemable Class A Preferred Shares Series 4	2
	$ 697
Weighted average number of common shares – basic	1,044
Weighted average effect of dilutive securities:	
Employee stock options	18
Cumulative Redeemable Class A Preferred Shares Series 4	5
Weighted average number of common shares – for diluted calculation	1,067
Earnings per common share – basic	$ .67
Earnings per common share – diluted	$ .65

For the purpose of reporting under United States GAAP, companies are not permitted to disclose supplementary measures of net earnings and earnings per share in the notes to the consolidated financial statements. Under Canadian GAAP, companies are permitted to provide supplementary measures of earnings and earnings per share, provided that these measures are not given the same prominence as reported earnings per share.

(xiv) For the purpose of reporting under United States GAAP, the existence of third party guarantees may, in certain circumstances, only require financial statement disclosure. Under Canadian GAAP, the existence of third party guarantees under the same circumstances may require balance sheet recognition of such guarantees. Under United States GAAP, as at December 31, 1999 and 1998, the committed and undrawn guarantees were approximately $792 and $285, respectively, and the drawn and outstanding guarantees were approximately $353 and nil, respectively, with no impact to the Corporation's net earnings (loss).

(xv) For the purpose of reporting under United States GAAP, companies are required to measure certain securities available-for-sale at fair value. Unrealized holding gains and losses related to this valuation are excluded from earnings and must be included in comprehensive income until they are realized. Under Canadian GAAP, these securities are held at the lower of cost and net realizable value.

(xvi) *Stock option plans - compensation costs*

For the purpose of reporting under United States GAAP, companies are required to calculate and disclose on a *pro forma* basis, the compensation expense related to the fair value of stock options in the notes to the consolidated financial statements. Accordingly, for the purpose of reporting under United States GAAP, the Corporation's net earnings (loss) applicable to common shares and earnings (loss) per common share would be reduced to the *pro forma* amounts as indicated below:

	1999	1998	1997
Net earnings (loss) applicable to common shares:			
– reported	$ (351)	$ (1,282)	$ 695
– *pro forma*	$ (839)	$ (1,399)	$ 601
Basic earnings (loss) per common share:			
– reported	$ (.26)	$ (1.12)	$ .67
– *pro forma*	$ (.62)	$ (1.22)	$ .58
Diluted earnings (loss) per common share:			
– reported	$ (.26)	$ (1.12)	$ .65
– *pro forma*	$ (.62)	$ (1.22)	$ .56
Black-Scholes option-pricing model assumptions:			
Dividend yield	.22%	.51%	.67%
Expected volatility	56.44%	42.34%	31.04%
Risk-free interest rate	6.21%	4.81%	5.00%
Expected option life	4 yrs	4 yrs	6 yrs

(xvii) *Valuation of long-lived assets*

The Corporation evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is less than its carrying value. In that event, a loss is recognized under United States GAAP based on the amount by which the carrying value exceeds the fair market value. Under Canadian GAAP, the recognized loss is based on the amount by which the carrying value exceeds the net recoverable amount. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Recent pronouncements

In June 1998, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes new accounting and reporting standards for derivative financial instruments and for hedging activities. SFAS 133 will require Nortel Networks to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on Nortel Networks' rights or obligations under the applicable derivative contract. The standard becomes effective for Nortel Networks on January 1, 2001. The Corporation continues to evaluate the potential impact of the new standard.

10. Related party transactions

In the ordinary course of business, Nortel Networks engages in transactions with certain of its equity-owned investees that are under or subject to significant influence, with joint ventures of the Corporation, with BCE Inc. ("BCE"), the owner of approximately 39 percent of the Corporation's common shares as at December 31, 1999, and with entities which are owned by BCE. These transactions are sales and purchases of goods and services under usual trade terms and are measured at their exchange amounts. Transactions with related parties are summarized as follows:

	1999	1998	1997
Revenues	$ 1,950	$ 1,792	$ 1,248
Purchases	$ 209	$ 87	$ 31

On February 17, 1999, the Corporation purchased, and recorded as an investment on a cost basis, C$150 of 6.5 percent convertible unsecured subordinated debentures ("Debentures") issued by a subsidiary of BCE. The Debentures are due on February 15, 2002, and the interest is compounded semi-annually and payable at maturity. On January 21, 2000, the Corporation sold the Debentures to a third party.

11. Inventories

At December 31, inventories consisted of:

	1999	1998
Raw materials	$ 724	$ 463
Work in process	851	456
Finished goods	1,381	768
	$ 2,956	$ 1,687

12. Plant and equipment

At December 31, plant and equipment consisted of:

	1999	1998
Cost:		
Land	$ 104	$ 67
Buildings	1,419	1,233
Machinery and equipment	3,994	3,949
	5,517	5,249
Less accumulated amortization:		
Buildings	460	376
Machinery and equipment	2,599	2,610
	3,059	2,986
	$ 2,458	$ 2,263

13. **Plans for employees' pensions**

Nortel Networks has non-contributory defined benefit pension plans covering substantially all of its employees. The benefits are based on length of service and rates of compensation.

Nortel Networks' policy is to fund pensions based on widely used actuarial methods as permitted by pension regulatory authorities. The funded amounts reflect actuarial assumptions regarding compensation, interest, and other projections. Plan assets are represented primarily by common stocks, bonds, debentures, secured mortgages, and property. Included in plan assets are common shares and debentures of BCE, the major shareholder of the Corporation, and common shares of Bell Canada International Inc., a subsidiary of BCE, with an aggregate market value of $126 ($23 in 1998).

Pension costs reflected in the consolidated statements of operations are based on the unit credit method of valuation of pension plan benefits. Within the consolidated balance sheets, pension plan assets are included in Other assets and pension plan liabilities are included in Other liabilities.

The following are details of the funded status of the plans and amounts recognized in the consolidated balance sheets as at December 31:

	Deferred pension asset		Deferred pension liability	
	1999	1998	1999	1998
Funded status:				
Projected benefit obligation	$ 3,416	$ 2,895	$ 2,407	$ 2,198
Plan assets at fair value	3,693	3,278	2,214	2,029
Excess (deficiency) of plan assets at fair value over projected plan benefits	277	383	(193)	(169)
Unrecognized net plan benefits existing at January 1, 1987	(13)	(15)	-	-
Other unrecognized net plan benefits and amendments	(140)	(160)	(102)	(87)
Net accrued pension asset (liability)	$ 124	$ 208	$ (295)	$ (256)

	1999	1998	1997
Pension expense:			
Service cost – benefits earned	$ 223	$ 153	$ 137
Interest cost on projected plan benefits	361	350	351
Estimated return on plan assets	(398)	(370)	(346)
Termination benefits	-	49	-
Amortization of net pension plan benefits and amendments	46	55	41
Curtailment gain	(16)	-	-
Actuarial loss	7	-	-
Net pension expense	$ 223	$ 237	$ 183
Assumptions:			
Discount rates	6.8%	7.2%	8.0%
Rate of return on assets	8.0%	8.5%	8.3%
Rate of compensation increase	4.0%	4.3%	4.6%

	Deferred pension asset		Deferred pension liability	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 2,895	$ 2,496	$ 2,198	$ 2,011
Service cost – benefits earned	163	92	60	61
Interest cost on projected plan benefits	208	203	153	147
Amendments	(29)	7	18	(7)
Actuarial loss (gain)	453	228	(2)	244
Acquisition/divestiture/settlements	(59)	49	3	-
Benefits paid	(135)	(161)	(147)	(133)
Foreign exchange	(80)	(19)	124	(125)
Benefit obligation at end of year	$ 3,416	$ 2,895	$ 2,407	$ 2,198

	Deferred pension asset		Deferred pension liability	
	1999	1998	1999	1998
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 3,278	$ 2,785	$ 2,029	$ 1,635
Actual return on plan assets	640	445	136	233
Employer contribution	68	69	80	59
Acquisition/divestiture/settlements	(64)	-	-	-
Benefits paid	(277)	(19)	(147)	(107)
Change in valuation	95	2	-	331
Foreign exchange	(47)	(4)	116	(122)
Fair value of plan assets at end of year	$ 3,693	$ 3,278	$ 2,214	$ 2,029

14. Long-term debt

At December 31, long-term debt consisted of:

	1999	1998
8 3/4% Notes due June 12, 2001, swapped to U.K. pounds, principal and interest of 10.75% *	$ 250	$ 250
Term credit facility due June 28, 2001, with an average floating interest rate of 5.51% based on LIBOR	120	120
6 7/8% Notes due October 1, 2002	300	300
6% Notes due September 1, 2003	200	200
7.40% Notes due June 15, 2006	150	150
6 7/8% Notes due September 1, 2023	200	200
7 7/8% Notes due June 15, 2026	150	150
5 1/4% Convertible debentures, maturing May 15, 2003 **	-	92
Other long-term debt with various repayment terms, and interest rates ranging from LIBOR + .03% to LIBOR + 1%	288	177
Obligations under capital leases	31	28
	1,689	1,667
Less: Amount included in current liabilities	65	19
	$1,624	$1,648

* Designated as a hedge of foreign currency exposure relating to Nortel Networks' net investment in the United Kingdom. Long-term debt is presented at face value, with the net value of each swap reflected in long-term assets or long-term liabilities as appropriate.

** In May 1999, approximately $41 of the debentures was redeemed at the option of the holders into common shares of the Corporation. The remaining issued and outstanding debentures were also redeemed in May 1999 for approximately $53, representing a redemption price equal to 102.1 percent of the principal amount of the debentures.

At December 31, 1999, the amounts of long-term debt payable (excluding obligations under capital leases) for the years 2000 through 2004 were $57, $396, $328, $208, and $168, respectively.

15. **Commitments**

At December 31, 1999, the future minimum lease payments under capital leases and operating leases consisted of:

	Capital Leases	Operating Leases
Year ending December 31		
2000	$ 10	$ 396
2001	8	304
2002	8	218
2003	4	155
2004	2	122
Thereafter	-	262
Total future minimum lease payments	32	$ 1,457
Less: Imputed interest	3	
Present value of net minimum lease payments	$ 29	

Rental expense on operating leases for the years ended December 31, 1999, 1998, and 1997 amounted to $558, $431, and $264, respectively.

16. **Contingencies**

On October 14, 1998, a class action complaint was filed in the United States District Court for the Southern District of New York, purportedly on behalf of certain former Bay Networks securities holders, alleging that the proxy statement/prospectus and registration statement (the "Bay Networks Proxy Statement") in connection with the merger of Bay Networks with a subsidiary of the Corporation, as well as certain public statements made by the Corporation and certain named officers, violated applicable securities laws by containing materially false and misleading statements and omissions concerning the Corporation's financial condition. Two additional class action complaints were filed in the same court on November 16, 1998, and December 11, 1998, alleging substantially similar claims. The court granted the plaintiffs' motion to consolidate all three actions on February 1, 1999. On January 31, 2000, the court granted the Corporation's motion to dismiss the plaintiffs' consolidated amended class action complaint and closed the case. The plaintiffs have until March 6, 2000 to appeal the dismissal.

In June 1998, four class action complaints were filed in the Delaware Court of Chancery, New Castle County, purportedly on behalf of all common shareholders of Bay Networks, alleging that the Bay Networks directors breached fiduciary duties owed to the Bay Networks shareholders and that the Corporation aided and abetted the alleged breaches of fiduciary duty. On July 23, 1998, Bay Networks, the Corporation, and counsel for the plaintiff class entered into an agreement in principle (the "Settlement Agreement") under which the actions will be dismissed (subject to confirmation by the parties and the approval of the court) and which provided that additional disclosures be made in the final Bay Networks Proxy Statement and that counsel for the plaintiff class may apply to the court for an award of legal fees up to $450 thousand and expenses up to $25 thousand. The Corporation provided for these amounts in 1998. On August 26, 1998, a class action complaint was filed in the same court purportedly on behalf of all Bay Networks common shareholders, alleging that the Bay Networks Proxy Statement was materially misleading by failing to disclose pending litigation by Bay Networks against nine former employees. On January 27, 2000, the court approved the Settlement Agreement, thereby dismissing with prejudice the five actions described above, and awarded $400 thousand in legal fees and expenses. The plaintiffs have until February 28, 2000 to appeal.

On April 18, 1997, a lawsuit was filed in the California Superior Court, County of Santa Clara, purportedly on behalf of a class of shareholders who acquired Bay Networks common shares pursuant to the registration statement and prospectus that became effective on November 15, 1995. On March 4, 1997, Bay Networks announced that shareholders had filed two separate lawsuits in the United States District Court for the Northern District of California and the California Superior Court, County of Santa Clara against Bay Networks and ten of Bay Networks then current and former officers and directors, purportedly on behalf of a class of shareholders who purchased Bay Networks common shares during the period of May 1, 1995,

through October 14, 1996. The two actions in the California Superior Court, County of Santa Clara, were consolidated in April 1998 (the "Consolidated California Action") but cleared the plaintiffs' motion for class certification. In January 2000, the California Court of Appeal rejected the plaintiffs' appeal of the decision. The plaintiffs have 40 days to appeal.

In June 1993, certain holders of the Corporation's securities commenced a class action in the United States District Court for the Southern District of New York alleging that the Corporation and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of the Corporation. In January 2000, the court heard arguments on the Corporation's motion for summary judgment with respect to all claims in the case.

Nortel Networks is also a defendant in various other suits, claims and investigations which arise in the normal course of business.

Except where noted above, the Corporation is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact of these matters and therefore cannot determine whether these actions will, individually or collectively, have a material adverse impact on the consolidated financial position or results of operations of the Corporation. Unless otherwise noted, the Corporation and any named directors and officers intend to vigorously defend these actions.

Environmental matters

Nortel Networks, primarily as a result of its manufacturing operations, is subject to numerous environmental protection laws and regulations in various jurisdictions around the world and is exposed to liabilities and compliance costs arising from its past and current generation, management and disposition of hazardous substances and wastes.

At December 31, 1999, the accruals on the Corporation's consolidated balance sheet for environmental matters, including those referred to below, were $34. It is anticipated that, for the most part, these amounts will be paid over the next five years. Based on information currently available, management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liability that may result from these matters, and any additional liabilities that may result in connection with other locations currently under investigation, are not expected to have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Nortel Networks has remedial activities under way at six of its facilities and seven previously occupied sites. An estimate of Nortel Networks' anticipated remediation costs associated with all such facilities and sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of $33.

Nortel Networks is also listed as a potentially responsible party ("PRP") under the United States Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") at five Superfund sites in the United States and is listed as a *de minimus* PRP at three of these Superfund sites. An estimate of Nortel Networks' share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of Nortel Networks' involvement. In addition, the accuracy of Nortel Networks' estimate of environmental liability is affected by several uncertainties such as additional requirements that may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of currently unknown remediation sites. Consequently, Nortel Networks' liability could be greater than its current estimate.

17. **Preferred shares and common shares**

Preferred shares

The Corporation is authorized to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares, without nominal or par value, issuable in series. Class A Preferred Shares have been issued for consideration denominated in Canadian dollars (C$) and are presented in U.S. dollars after translation at the exchange rate in effect at the date of original issue. Each series of Class A Preferred Shares ranks in parity with every other series of Class A Preferred Shares.

At December 31, the outstanding Class A Preferred Shares included in shareholders' equity consisted of:

	1999		1998		1997	
	Number of shares *(thousands)*	Amount	Number of shares *(thousands)*	Amount	Number of shares *(thousands)*	Amount
Series 4, issued June 25, 1985 for consideration of C$100 million	-*	$ 73	-*	$ 73	-*	$ 73
Series 5, issued November 26, 1996 for consideration of C$400 million	16,000	$ 294	16,000	$ 294	16,000	$ 294
Series 7, issued November 28, 1997 for consideration of C$350 million	14,000	$ 242	14,000	$ 242	14,000	$ 242

* represents 200 shares.

The Cumulative Redeemable Class A Preferred Shares Series 4 ("Series 4 Shares") dividend rate is determined by auctions held at intervals of approximately one month on the business day immediately preceding the commencement of each dividend period. The Corporation can neither participate, nor oblige any subsidiary to participate, in the auction procedures. The annual dividend rate may not exceed the Bankers' Acceptance Rate in effect on the auction date plus .40 percent. The annual dividend rate in effect on December 31, 1999, 1998, and 1997 was 4.20 percent, 4.40 percent, and 3.34 percent, respectively. The Corporation may call all, or a part of, the Series 4 Shares for redemption at a price of C$500,000 per share, on the business day immediately preceding any auction date. Dividends on the outstanding Series 4 Shares are declared and payable in Canadian dollars. Amounts equal to accrued and unpaid dividends are payable by the Corporation upon redemption of the Series 4 Shares. The applicable dividend must be declared prior to redemption.

On July 8, 1994, the Corporation issued 200 Exchange Rights to the holders of its Series 4 Shares without cost to such holders. The Exchange Rights entitle the holders to exchange each Exchange Right, together with one Series 4 Share, for that number of common shares determined by dividing C$500,000 by the greater of C$2.50 and 95 percent of the weighted average trading price of the common shares on The Toronto Stock Exchange for the ten trading days ending immediately preceding the exchange date. The Exchange Rights will be of no force or effect until the occurrence of two consecutive unsuccessful auctions in which there are not sufficient clearing bids to determine a dividend rate in respect of the Series 4 Shares. At December 31, 1999, no Exchange Rights had been exercised. An Exchange Right has no value except in connection with a Series 4 Share.

The Cumulative Redeemable Class A Preferred Shares Series 5 ("Series 5 Shares") are presented net of tax effected issue costs of approximately $4. Holders of the Series 5 Shares will, until November 30, 2001, be entitled to an annual fixed cumulative preferential cash dividend of C$1.275 per share (5.1 percent), payable, if declared, quarterly on the first day of March, June, September, and December. From December 1, 2001,

holders of the Series 5 Shares will be entitled to, if declared, a monthly floating cumulative preferential cash dividend. Holders of Series 5 Shares will have the right to convert their shares into Cumulative Redeemable Class A Preferred Shares Series 6 ("Series 6 Shares"), subject to certain conditions, on December 1, 2001, and on December 1 of every fifth year thereafter. Holders of Series 6 Shares will have a similar right to convert back into Series 5 Shares every five years. In certain circumstances, conversions may be automatic. The Series 5 Shares are not redeemable prior to December 1, 2001, at which time they will be redeemable at the Corporation's option at C$25 per share together with accrued and unpaid dividends up to, but excluding, the date of redemption. The Series 5 Shares will be redeemable after that date at the Corporation's option at C$25.50 per share together with accrued and unpaid dividends up to, but excluding, the date of redemption. The Series 6 Shares will also be redeemable at the Corporation's option at C$25 per share, together with accrued and unpaid dividends up to, but excluding, the date of redemption, on December 1, 2006, and on December 1 of every fifth year thereafter.

The Non-cumulative Redeemable Class A Preferred Shares Series 7 ("Series 7 Shares") are presented net of tax effected issue costs of approximately $4. Holders of the Series 7 Shares will, until November 30, 2002, be entitled to an annual fixed non-cumulative preferential cash dividend of C$1.225 per share (4.9 percent), payable, if declared, quarterly on the first day of March, June, September, and December. From December 1, 2002, holders of the Series 7 Shares will be entitled to, if declared, a monthly floating non-cumulative preferential cash dividend. Holders of Series 7 Shares will have the right to convert their shares into Non-cumulative Redeemable Class A Preferred Shares Series 8 ("Series 8 Shares"), subject to certain conditions, on December 1, 2002, and on December 1 of every fifth year thereafter. Holders of the Series 8 Shares will have a similar right to convert back into Series 7 Shares every five years. In certain circumstances, conversions may be automatic. The Series 7 Shares are not redeemable prior to December 1, 2002, at which time they will be redeemable at the Corporation's option at C$25 per share, together with declared and unpaid dividends to the date of redemption. The Series 7 Shares will be redeemable after that date at the Corporation's option at C$25.50 per share together with declared and unpaid dividends to the date of redemption. The Series 8 Shares will also be redeemable at the Corporation's option at C$25 per share, together with declared and unpaid dividends up to, but excluding, the date of redemption, on December 1, 2007, and on December 1 of every fifth year thereafter.

Common shares

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value. At December 31, the outstanding number of common shares included in shareholders' equity consisted of:

	1999	1998	1997
		(thousands of shares)	
Balance at beginning of year	1,326,209	1,037,761	1,039,505
Shares issued pursuant to:			
Shareholder dividend reinvestment and stock purchase plan	82	181	195
Stock option plans	31,940	10,066	18,002
Shares issued relating to acquisitions	18,304	286,796	-
Shares issued upon conversion of debentures	1,145	-	-
Shares purchased and cancelled	(525)	(8,595)	(19,941)
Balance at end of year	1,377,155	1,326,209	1,037,761

On July 29, 1999, the Corporation announced a stock dividend of one common share on each of its issued and outstanding common shares paid to shareholders of record as of the close of business on August 17, 1999 (the "1999 Stock Dividend"). On December 18, 1997, the shareholders of the Corporation approved the division of its common shares on a two-for-one basis (the "1997 Stock Split"). The 1997 Stock Split was effective for registered common shareholders at the close of business on January 7, 1998. All references to earnings (loss) per common share, dividends declared per common share, weighted average number of common shares outstanding, common shares issued and outstanding, and supplementary measure of earnings per common share, have been restated to reflect the impact of the 1999 Stock Dividend and 1997 Stock Split, respectively, on a retroactive basis.

In January 1997, the Corporation commenced a program to repurchase up to 32 million common shares for cancellation during the one-year period ended January 29, 1998. On February 2, 1998, the Corporation announced the commencement of a new program to repurchase for cancellation up to 12.8 million of the Corporation's common shares in the period from February 4, 1998, to February 3, 1999. On February 22, 1999, the Corporation announced the commencement of a new program to repurchase for cancellation up to 20 million of the Corporation's common shares in the period from February 26, 1999, to February 25, 2000. The Corporation acquired and cancelled 523,800 of its shares in 1999 under the two latter programs.

Common shares listed and available for issuance under the following plans were Shareholder Dividend Reinvestment and Stock Purchase Plan – 15,762,927; Investment Plan for Employees - Canada – 8,000,692; Long-term Investment Plan - U.S. – 708,940; and Stock Option Plans – 179,544,351.

At December 31, 1999 and 1998, BCE owned 39.2 percent and 40.7 percent of the outstanding common shares, respectively.

18. Stock options

Under the Nortel Networks Corporation 1986 Stock Option Plan As Amended and Restated (the "Plan"), options to purchase common shares of the Corporation may be granted to employees of Nortel Networks which entitle the holder to purchase one common share at a subscription price of not less than 100 percent of market value on the effective date of the grant. Subscription prices are stated in U.S. dollars for U.S. options and in Canadian dollars for Canadian options. Generally, the holder has the right to exercise the options as follows: 1997 and subsequent grants vest 33 1/3 percent at the end of each year for three years; 1991 through 1996 grants vest 50 percent after the first year and the remainder after two years; and pre-1991 grants vest 50 percent after the first two years and 50 percent after the third year. The committee that administers the Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years. The Corporation will meet its obligation under the Plan either by issuance, or by purchase on the open market, of common shares.

Each option may be granted with or without a stock appreciation right ("SAR"). A SAR entitles the holder to receive payment of an amount equivalent to the excess of the market value of a common share at the time of exercise of the SAR over the subscription price of the common share to which the option relates. Options with SARs may be granted on a cancellation basis, in which case the exercise of one causes the cancellation of the other, or on a simultaneous basis, in which case the exercise of one causes the exercise of the other.

The maximum number of common shares authorized by the shareholders and reserved for issuance by the Board of Directors of the Corporation under the Plan is 234,859,020. The maximum number of common shares with respect to which options may be granted for the 1999 calendar year and any year thereafter is three percent of the common shares issued and outstanding at the commencement of the year, subject to certain adjustments.

In January 1995, a key contributor stock option program (the "Program") was established under the Plan. Under the terms of the Program, participants are granted an equal number of initial options and replacement options. The initial options generally vest after five years and expire after ten years. The replacement options are granted concurrently with the initial options and also expire after ten years. The replacement options generally have an exercise price equal to the market value of the common shares of the Corporation on the day the initial options are fully exercised, and are generally exercisable commencing thirty-six months thereafter, provided certain other conditions for exercise, including share ownership, are met. In January 1999, 1998,

and 1997, respectively, 1,040,000, 1,708,000, and 2,020,000 options were granted pursuant to the Program under the Plan.

At December 31, 1999, 82,406,242 common shares had been issued pursuant to stock option exercises, and 152,443,811 common shares remained listed with various stock exchanges for issuance, under the Plan.

Periphonics' employee stock option plans

In connection with the acquisition of Periphonics, the Corporation assumed approximately 1.5 million options to purchase shares of common stock of Periphonics. The number of options, and the exercise price of such options, were adjusted by the exchange ratio of 0.62 which was used in the acquisition. After adjustment, approximately 0.9 million common shares of the Corporation were issuable upon exercise of the options.

The majority of the assumed options were granted under the Periphonics Corporation 1995 Stock Option Plan (the "1995 Employee Plan"). Under the 1995 Employee Plan, options granted vest and become immediately exercisable by the optionee in four annual installments of 25 percent on the first, second, third and fourth anniversaries of the date of grant. Generally, options granted under the 1995 Employee Plan are for a term of five years and are exercisable at an exercise price of 100 percent of the fair market value of Periphonics common stock on the date of grant.

The remaining options to purchase shares of Periphonics common stock which were assumed by the Corporation were granted under the Periphonics Corporation 1995 Non-Employee Director Stock Option Plan or the Periphonics Corporation 1986 Incentive Stock Option Plan.

Bay Networks' employee stock option plans

In connection with the acquisition of Bay Networks, the Corporation assumed approximately 78.8 million options to purchase shares of common stock of Bay Networks. The number of options, and the exercise price of such options, were adjusted by the exchange ratio of 0.6 which was used in the acquisition. After adjustment, approximately 47.3 million common shares of the Corporation were issuable upon exercise of the options.

The majority of options assumed were granted under the Bay Networks, Inc. 1994 Stock Option Plan (the "1994 Plan"). Under the 1994 Plan, options granted were immediately exercisable; however, unvested shares at the date of termination of employment may be repurchased at the original exercise price. The Board of Directors of Bay Networks determined when the options were exercisable, their price and other terms, but the option price could not be less than the fair value of the share at the grant date. Options expired no later than eight years after the grant and generally vested at the rate of 25 percent after one year from the date of grant, and then ratably over the following thirty-six months.

The remaining options to purchase shares of common stock of Bay Networks which were assumed by the Corporation were granted under the Bay Networks Outside Directors Stock Option Plan or under plans of various companies which were acquired by Bay Networks. These companies include Xylogics, Inc., Rapid City Communications, New Oak Communications, Inc., and Netwave Technologies, Inc.

The following is a summary of the maximum number of common shares issuable pursuant to outstanding stock options and available for future issuance:

	Outstanding			Available For Issuance
	1999	1998	1997	1999
	(thousands of shares unless otherwise indicated)			
January 1	110,025	50,174	50,693	1,900
Additional shares listed				95,784
Increase (decrease) resulting from:				
Granted and assumed options	48,382	74,878	19,315	(48,382)
Options exercised	(31,940)	(10,066)	(18,002)	-
Options cancelled	(9,228) (i)	(4,961)	(1,832)	4,111
December 31	117,239	110,025	50,174	53,413
Weighted average subscription price of options:				
U.S. dollars	$ 30	$ 18	$ 13	
Canadian dollars	$ 45	$ 28	$ 18	
Exercisable (vested) at December 31	41,871	64,921	16,080	
Weighted average subscription price of exercisable options:				
U.S. dollars	$ 18	$ 17	$ 9	
Canadian dollars	$ 27	$ 26	$ 14	

(i) Includes adjustments related to assumed stock option plans.

In connection with the acquisitions of Periphonics in 1999 and Bay Networks in 1998, a total of 925,180 and 47,287,800 common shares of the Corporation, respectively, have been listed for issuance under the assumed plans, and the related options are included in the preceding table. At December 31, 1999, the total number of common shares issuable in respect of outstanding options under all Nortel Networks' stock option plans was 117,239,467. The number of additional common shares authorized for issuance under applicable Nortel Networks' stock option plans was 53,412,562, which were listed and available for issuance. Options which have been granted with SARs, are exercisable on a cancellation basis. At December 31, 1999, 1998, and 1997, 38,200, 162,800, and 256,600 SARs, respectively, were outstanding at a weighted average subscription price per share of approximately $6.00 (C$9.00). SARs exercisable as at December 31, 1999 and 1998 were nil.

The range of prices for options granted, exercised, and canceled were as follows:

	1999	1998	1997
U.S. dollars:	High/Low	High/Low	High/Low
Grant of additional options	$90.78 / 29.25	$32.20 / 15.84	$26.04 / 17.71
Exercise of options	$36.63 / 0.02	$23.80 / 0.02	$17.71 / 3.93
Cancellation of options	$75.88 / 0.02	$34.45 / 0.02	$26.04 / 4.89
Canadian dollars:			
Grant of additional options	C$134.22 / 44.04	C$46.90 / 24.17	C$36.04 / 23.87
Exercise of options	C$46.90 / 4.64	C$25.41 / 4.64	C$20.01 / 4.64
Cancellation of options	C$111.75 / 8.22	C$44.90 / 7.13	C$36.04 / 8.23

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding *(thousands)*	Weighted-Average Remaining Contractual Life *(in years)*	Weighted-Average Exercise Price	Number Exercisable *(thousands)*	Weighted-Average Exercise Price
$ 0.02 - $13.42	17,952	5.08	$ 9.51	11,728	$ 9.51
$13.43 - $20.13	20,703	6.26	$17.25	14,527	$17.32
$20.14 - $26.84	29,575	7.69	$23.40	14,362	$24.40
$26.85 - $40.26	16,006	8.88	$31.76	1,240	$30.28
$40.27 - $53.68	22,495	9.65	$46.00	2	$47.94
$53.69 - $67.11	2,688	9.82	$59.50	-	$ -
$67.12 - $80.53	3,753	9.89	$75.46	12	$70.57
$80.54 - $90.95	4,067	9.96	$90.66	-	$ -
	117,239	7.77	$30.49	41,871	$17.96

19. Consolidated statements of cash flows

The following information pertains to the consolidated statements of cash flows for the years ended December 31.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and short-term investments. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts as at December 31:

	1999	1998	1997
Cash on hand and balances with banks	$ 582	$ 420	$ 265
Short-term investments	1,675	1,861	1,106
Total cash and cash equivalents	$ 2,257	$ 2,281	$ 1,371

Interest and income taxes paid

	1999	1998	1997
Income taxes paid	$ 421	$ 493	$ 336
Interest paid	$ 179	$ 233	$ 167

Acquisitions and other investments

The following table summarizes the Corporation's cash flows from investing activities resulting from acquisitions and other investments.

	Shasta	Periphonics	Other*	Total 1999	Total 1998**	Total 1997
Cash acquired	$ -	$ 22	$ -	$ 22	$ 765	$ (9)
Total net assets acquired other than cash	340	628	715	1,683	7,344	167
Total purchase price	340	650	715	1,705	8,109	158
Less: cash acquired	-	(22)	-	(22)	(765)	9
Less: non-cash consideration paid other than common share options and contingent consideration	(318)	(605)	-	(923)	(7,244)	-
Less: common share option consideration paid	-	(45)	-	(45)	(215)	-
Less: cash consideration contingent upon the achievement of certain operational milestones	(18)	-	-	(18)	-	-
Cash paid net of cash acquired	$ 4	$ (22)	$ 715	$ 697	$ (115)	$ 167

* Other primarily includes the $400 purchase of 12 percent Series A senior debentures from VoiceStream Wireless Corporation and the Debentures issued by a subsidiary of BCE.

** Details of the Corporation's cash flows from investing activities resulting from acquisitions and other investments for 1998:

	Nortel Technology	Cambrian	Bay Networks	r^3	NMC	Aptis	BNI	Other	Total 1998
Cash acquired	$ -	$ 17	$ 721	$ -	$ -	$ 7	$ 20	$ -	$ 765
Total net assets acquired other than cash	18	231	6,152	24	65	279	413	162	7,344
Total purchase price	18	248	6,873	24	65	286	433	162	8,109
Less: cash acquired	-	(17)	(721)	-	-	(7)	(20)	-	(765)
Less: non-cash consideration paid other than common share options and contingent consideration	-	-	(6,685)	(20)	-	(255)	(284)	-	(7,244)
Less: common share option consideration paid	-	-	(189)	-	-	(26)	-	-	(215)
Cash paid net of cash acquired	$ 18	$ 231	$ (722)	$ 4	$ 65	$ (2)	$ 129	$ 162	$ (115)

20. Interests in joint ventures

Nortel Networks' proportionate share of interests in joint ventures, including goodwill attributable to the joint ventures, are included in the consolidated financial statements and are summarized below. As at December 31, 1999, Nortel Networks had joint ventures in Germany and China.

	As at December 31,	
Balance Sheets	1999	1998
Total assets	$ 481	$ 857
Total liabilities	$ 287	$ 499

	Year ended December 31,		
Statements of Operations	1999	1998	1997
Revenues	$ 666	$ 841	$ 868
Net loss	$ 23	$ 31	$ 68

	Year ended December 31,		
Statements of Cash Flows	1999	1998	1997
Cash flows from operating activities	$ 34	$ 12	$ 16
Cash flows used in investing activities	(17)	(12)	(47)
Cash flows from (used in) financing activities	(50)	(4)	32
Foreign exchange gain on cash held in foreign currencies	-	7	16
Total cash flows	$ (33)	$ 3	$ 17

21. Financial instruments and hedging activities

Risk management

Nortel Networks operates internationally, which gives rise to a risk that its earnings and cash flows may be negatively impacted by fluctuations in interest and foreign exchange rates. To effectively manage this risk, Nortel Networks enters into foreign currency forward, swap, and option contracts and has established strict counterparty credit guidelines, which are monitored regularly. Nortel Networks does not hold or issue derivative financial instruments for trading purposes.

Hedge of net foreign investments

Nortel Networks enters into short-term and long-term cross currency swaps and forward contracts to limit its exposure to foreign currency fluctuations on its investments in the United Kingdom and France. The cross currency swap contracts involve either swapping the underlying debt denominated in U.S. dollars to U.K. pounds, as summarized in note 14, or exchanging U.S. dollars for U.K. pounds or French francs. The notional principal amounts of the French franc denominated swaps were $234 and $234 as at December 31, 1999 and 1998, respectively, which were approximately three and a half years in duration. The notional principal amounts of the U.K. pound denominated swaps, including those summarized in note 14, were $501 and $501 as at December 31, 1999 and 1998, respectively, which were principally between eighteen months and four years in duration. Nortel Networks had forward contracts outstanding to sell the equivalent of $238 and $344 as at December 31, 1999 and 1998, respectively, which were principally between one month and two months in duration. Forward and cross currency swap contracts are replaced, upon maturity, with similar term forward and cross currency contracts, to the extent that hedge effectiveness can be demonstrated.

Hedge of firm commitments

Nortel Networks enters into option contracts, mainly U.S. to Canadian dollar, to limit its exposure to exchange fluctuations on future revenue and expenditure streams. At December 31, 1999 and 1998, Nortel Networks had $538 and $707, respectively, of option contracts outstanding, which were principally between thirty days

and two years in duration. Nortel Networks also enters into forward contracts, denominated in various currencies, mainly U.S. to Canadian dollar, over terms of thirty days to two years, to limit its exposure to exchange fluctuations on existing assets and liabilities and on future revenue and expenditure streams. At December 31, 1999 and 1998, Nortel Networks had forward contracts outstanding to purchase and sell the equivalent of $1,000 and $805, respectively, related to these assets and liabilities and future revenue and expenditure streams. Nortel Networks also enters into U.S. to Canadian dollar cross currency coupon swap contracts to limit its exposure to foreign currency fluctuations on the non-cumulative preferential cash dividends with respect to the outstanding Series 7 Shares.

Interest rate risk

Nortel Networks enters into interest rate swap contracts to minimize financing costs on long-term debt and to manage interest rate risk on existing liabilities and receivables due to interest rate fluctuations. These contracts are denominated in various currencies and are swapped from floating rate payments to fixed rate payments or vice versa. The following table indicates the types of swaps used and their aggregated weighted-average interest rates. Average floating rates are based on rates implied in the yield curve at the reporting date; those may change significantly, affecting future cash flows. These swap contracts primarily have remaining terms to maturity of between nine months and seven years.

	1999	1998
Receive-fixed swaps – notional amount	$ 692	$ 538
Average fixed rate received	7.0%	7.0%
Average floating rate paid	5.9%	5.3%
Pay-fixed swaps – notional amount	$ 559	$ 604
Average fixed rate paid	7.4%	7.4%
Average floating rate received	6.1%	5.4%

Fair value

The estimated fair values approximate amounts at which these financial instruments could be exchanged in a current transaction between willing parties. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Specifically, the fair value of long-term debt instruments reflect a current yield valuation based on Nortel Networks' incremental borrowing rate, the fair value of interest rate swaps and forward contracts reflect the present value of the potential gain or loss if settlement were to take place on December 31, 1999, and the fair value of option contracts reflect the cash flows due to or by the Corporation if settlement were to take place on December 31, 1999. Accordingly, the estimates which follow are not necessarily indicative of the amounts that Nortel Networks could potentially realize in a current market exchange.

At December 31, 1999 and 1998, the carrying amount for all financial instruments approximates fair value with the following exceptions:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt due within one year	$ 65	$ 65	$ 19	$ 19
Long-term debt	1,624	1,618	1,648	1,779
Derivative financial instruments,				
Net asset (liability) position*:				
Hedges of net foreign investments:				
Forward foreign exchange contracts	1	2	-	1
Cross currency swaps	48	62	19	4
Interest rate swap contracts	-	(12)	-	(18)
Contracts relating to future revenues and expenditures:				
Forward foreign exchange contracts	-	4	-	(31)
Options	-	4	-	(19)
Cross currency coupon swap contracts	-	(15)	-	(13)

* Long-term receivables have been sold, with limited recourse of $31 and $43, as at December 31, 1999 and 1998, respectively.

Credit risk

Credit risk on financial instruments arises from the potential for counterparties to default on their contractual obligations to the Corporation. Nortel Networks is exposed to credit risk in the event of nonperformance, but does not anticipate nonperformance by any of the counterparties. Nortel Networks limits its credit risk by dealing with counterparties that are considered to be of high quality. The maximum potential loss on all financial instruments may exceed amounts recognized in the consolidated financial statements. However, Nortel Networks' maximum exposure to credit loss in the event of nonperformance by the other party to the derivative contracts is limited to those derivatives which have a positive fair value at December 31, 1999.

Nortel Networks is also exposed to credit risk from customers. However, Nortel Networks' global orientation has resulted in a large number of diverse customers, which minimizes concentrations of credit risk. Pursuant to certain financing agreements, Nortel Networks is committed to provide future financing in connection with purchases of Nortel Networks' products and services. These commitments were approximately $2,405 and $754 as at December 31, 1999 and 1998, respectively. Commitments to extend future financing are conditional agreements generally having fixed expiration or termination dates and specific interest rates and purposes. Nortel Networks limits its financing credit risk by utilizing an internal credit committee that actively monitors the credit exposure of the Corporation.

Guarantees

At December 31, 1999 and 1998, Nortel Networks had committed and undrawn guarantees of approximately $792 and $285, and drawn and outstanding guarantees of approximately $54 and nil, respectively, representing bid, performance, advance payment, and financial guarantees.

22. Unused bank lines of credit

At December 31, 1999, the Corporation and certain subsidiary companies had total unused committed bank lines of credit, generally available at rates slightly above LIBOR, of approximately $1,846.

23. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to the efforts of customers, suppliers, or third parties, have been fully resolved. The effects of the Year 2000 Issue may be experienced after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

24. Subsequent events

(a) *Sale of share ownership*

On February 29, and March 2, 2000, the Corporation sold a portion of its share ownership in Entrust Technologies for aggregate net proceeds of approximately $527, resulting in a gain of approximately $515.

(b) *Ownership distribution*

On January 26, 2000, BCE which owned approximately 39 percent of the Corporation's common shares as at December 31, 1999, announced its intention to implement a plan of arrangement to distribute an approximately 37 percent ownership interest in the Corporation to common shareholders of BCE. As a result of this plan, a new publicly-traded Canadian company will be created which will own all of the common shares of the Corporation. The Corporation's public common shareholders will receive one common share in the new company in exchange for each of the common shares of the Corporation they hold. BCE common shareholders will receive one new BCE common share and approximately 0.78 (subject to adjustment) of a common share in the new company for each BCE common share they hold. The transaction is subject to regulatory, court and shareholder approvals, and the receipt of appropriate tax rulings. The Corporation and BCE have signed a definitive agreement, approved by the Boards of Directors of each company, to implement the proposed transaction. The plan of arrangement is expected to be implemented by the end of the second quarter of 2000.

(c) *Stock split*

On January 25, 2000, the Board of Directors of the Corporation approved, subject to common shareholder and regulatory approvals, a division of the common shares of the Corporation on a two-for-one basis (the "2000 Stock Split"). Common shareholders of the Corporation will be asked to approve the 2000 Stock Split at the next scheduled meeting of the Corporation's common shareholders. Subject to shareholder approval and other customary approvals and filings, the number of issued and outstanding common shares of the Corporation will double as of the effective date of the 2000 Stock Split, which will be determined by the Board of Directors of the Corporation upon receipt of shareholder approval.

References to earnings (loss) per common share, dividends declared per common share, weighted average number of common shares, and supplementary measure of earnings per common share have been provided on a *pro forma* basis to reflect the impact of the proposed 2000 Stock Split.

(d) *Acquisitions*

On February 9, 2000, the Corporation announced the acquisition of Dimension Enterprises, Inc., an engineering and business strategy consulting firm, for up to $65 in cash.

On January 28, 2000, the Corporation acquired Qtera Corporation ("Qtera"), a producer of ultra-long-reach optical networking systems. The acquisition was completed by way of a merger of Qtera with and into a wholly owned subsidiary of the Corporation. Each outstanding share of Qtera preferred stock and common stock was converted into a right to receive 1.3350 common shares of the Corporation (an aggregate of approximately 23 million common shares). Approximately 5 million common shares of the Corporation were reserved for issuance in respect of Qtera options and warrants assumed by the Corporation. In addition, up to $500 in common shares of the Corporation may be issued to former Qtera shareholders, option holders and warrant holders, upon Qtera achieving certain business objectives.

On January 6, 2000, the Corporation and Promatory Communications, Inc. ("Promatory") announced the signing of a definitive agreement whereby the Corporation will acquire Promatory, a developer of Digital Subscriber Line platforms for high-speed Internet access. The aggregate purchase price for the common shares of Promatory on a fully diluted basis is approximately $778. Under the terms of the agreement, an estimated $705 will be paid in common shares of the Corporation on a fully diluted basis at closing. Up to an additional $73 in common shares of the Corporation will be payable subject to the fulfillment by Promatory of certain business performance objectives in 2000. The acquisition, which will be effected by way of a merger of a wholly owned subsidiary of the Corporation with and into Promatory, is subject to certain customary regulatory and other approvals. The acquisition is expected to close in the first quarter of 2000.

On October 18, 1999, the Corporation and Clarify Inc. ("Clarify") announced the signing of a definitive agreement whereby the Corporation will acquire Clarify, a provider of front office solutions for eBusiness. Under the terms of the agreement, Clarify stockholders will receive a fixed exchange ratio of 1.3 common shares of the Corporation for each share of Clarify common stock. Based on the closing price of $52.69 per common share of the Corporation on October 15, 1999, this represents a price of $68.49 per share of Clarify and an aggregate purchase price of approximately $2,100 for the shares of common stock of Clarify on a fully diluted basis. For the purpose of reporting under Canadian GAAP, the aggregate purchase price will be determined based on the Corporation's common share price on or about the date of the completion of the merger. The Boards of Directors of the Corporation and Clarify have approved the transaction. The acquisition, which will be effected by way of a merger of a wholly owned subsidiary of the Corporation with and into Clarify, is subject to certain customary regulatory and other approvals, including approval by the Clarify stockholders. Clarify has called a meeting of its stockholders for March 16, 2000 to consider the merger. The acquisition is expected to close in the first quarter of 2000.

25. Comparative figures

Certain 1998 and 1997 figures in the consolidated financial statements have been reclassified to conform with the 1999 presentation.

CONSOLIDATED FIVE-YEAR REVIEW (unaudited)

	(millions of U.S. dollars except per share figures and employee amounts)				
	1999	1998	1997	1996	1995
Earnings and Related Data					
Revenues					
- Canadian GAAP	$ 22,217	$ 17,575	$ 15,449	$ 12,847	$ 10,672
- U.S. GAAP	21,287	16,857	14,581	11,919	9,842
Research and development expense	2,908	2,453	2,147	1,813	1,579
Amortization of plant and equipment	547	471	439	439	430
Income tax provision	696	601	438	321	233
Net earnings (loss)					
- Canadian GAAP	(170)	(537)	829	623	473
- U.S. GAAP	(324)	(1,250)	712	564	399
Net earnings (loss) applicable to common shares					
- Canadian GAAP	(197)	(569)	812	619	469
- U.S. GAAP	(351)	(1,282)	695	560	395
Earnings (loss) per revenue dollar, in cents					
- Canadian GAAP	(1)	(3)	5	5	4
- U.S. GAAP	(2)	(8)	5	5	4
Earnings (loss) per common share, in dollars					
- Canadian GAAP	(.15)(1)	(.50)(2)	.78(3)	.60	.46
- U.S. GAAP	(.26)(1)	(1.12)(2)	.67(3)	.54	.39
- U.S. GAAP, fully diluted	(.26)(1)	(1.12)(2)	.65(3)	.54	.39
Dividends per common share, in dollars	.15	.15	.15	.13	.11
Financial Position at December 31					
Working capital	5,278	4,424	3,664	3,099	2,051(4)
Plant and equipment (at cost)	5,517	5,249	4,706	4,680	4,533
Accumulated amortization	3,059	2,986	2,666	2,645	2,610
Total assets					
- Canadian GAAP	22,597	19,732	12,554	10,903	9,480(4)
- U.S. GAAP	24,007	21,828(4)	12,398(4)	10,820(4)	9,301(4)
Long-term debt	1,624	1,648	1,565	1,663	1,221(4)
Redeemable preferred shares	609	609	609	367	73
Common shareholders' equity					
- Canadian GAAP	11,909	10,956	4,801	4,509	3,798
- U.S. GAAP	13,071	12,190	4,517	4,304	3,652
Capital expenditures	823	649	568	601	577
Employees at December 31	76,712(5)	71,296(5)	68,341(5)	62,284(5)	59,904(6)

(1) Includes the following:	CDN. GAAP	U.S. GAAP
• Acquisition Related Costs (the amortization of intangible assets from the acquisition of Bay Networks and all subsequent acquisitions, and the amortization of any purchased in-process research and development from prior acquisitions).	$ (1,961)	$ (2,075)
• one-time gains (see "Other income – net" Note 7 of the Notes to the Consolidated Financial Statements);	$ 264	$ 264
• one-time charges (see "Special charges" Note 6 of the Notes to the Consolidated Financial Statements);	$ (209)	$ (209)
• net tax impact on one-time gains and one-time charges.	$ 16	$ 16

		CDN. GAAP	U.S. GAAP
(2)	Includes the following:		
	• Acquisition Related Costs	$ (1,630)	$ (2,341)
	• one-time gains (see "Other income – net" Note 7 of the Notes to the Consolidated Financial Statements);	$ 441	$ 441
	• one-time charges (see "Special charges" Note 6 of the Notes to the Consolidated Financial Statements);	$ (447)	$ (447)
	• net tax impact on one-time gains and one-time charges.	$ (2)	$ (2)
(3)	Includes the following:		
	• one-time gain (see "Other income – net" Note 7 of the Notes to the Consolidated Financial Statements);	$ 102	$ 102
	• one-time charges (see "Special charges" Note 6 of the Notes to the Consolidated Financial Statements);	$ (95)	$ (95)
	• net tax impact on one-time gains and one-time charges.	$ (1)	$ (1)

(4) Comparative amounts have been restated to conform with current period's presentation.

(5) In addition, Nortel Networks' proportionate share of the employees of all joint ventures was 3,915 in 1999, 3,756 in 1998, 4,555 in 1997 and 5,300 in 1996.

(6) In addition, Nortel Networks' proportionate share of the employees of the Matra Nortel Communications S.A.S. joint venture was 3,811 in 1995.

"Canadian GAAP" means Canadian generally accepted accounting principles and "U.S. GAAP" means United States generally accepted accounting principles. Unless otherwise stated, the selected financial data presented have been prepared in accordance with Canadian GAAP.

All references to earnings (loss) per common share, and dividends per common share, have been restated to reflect the impact of the 1999 Stock Dividend and the 1998 Stock Split.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized consolidated quarterly financial data for 1999 and 1998 are as follows:

	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	1999	1998	1999	1998	1999	1998	1999	1998
Revenues	$ 6,993	$ 5,768	$ 5,393	$ 4,141	$ 5,413	$ 4,156	$ 4,418	$ 3,510
Gross profit	3,065	2,529	2,294	1,795	2,338	1,737	1,923	1,464
Net earnings (loss)	423	(332)	8	(181)	(138)	-	(463)	(24)
Net earnings (loss) applicable to common shares	417	(341)	1	(189)	(145)	(7)	(470)	(32)
Earnings (loss) per common share *	.30	(.26)	-	(.17)	(.11)	(.01)	(.35)	(.03)
Supplementary measure of earnings per common share *	.55	.36	.28	.21	.27	.20	.17	.13
Weighted average number of common shares outstanding (millions) *	1,370	1,327	1,359	1,144	1,350	1,054	1,332	1,048

* All references to earnings (loss) per common share, supplementary measure of earnings per common share, and weighted average number of common shares outstanding, have been restated to reflect the impact of the 1999 Stock Dividend.